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ROYAL COMMISSION ON TAXATION

Hearing held in Room 305,  
Vancouver Public Library,  
750 Burrard Street,  
Vancouver, British Columbia,  
on the 15th day of August,  
1963.

COMMISSION:

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S.M. MILNE

MR. CHARLES E.S. WALLS

LEGAL ADVISER:

MR. J.L. STEWART, Q.C.

RESEARCH DIRECTOR:

PROF. D.G. HARTLE

SECRETARY:

MR. G.L. BENNETT

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ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF VANCOUVER, BRITISH COLUMBIA

August 15, 1963

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1 --- On commencing at 9.30 a.m.

2 THE CHAIRMAN: Mr. Secretary, we will begin.

3 THE SECRETARY: Mr. Chairman and Commissioners,  
4 the first brief this morning is from the Vancouver Board  
5 of Trade. Mr. William Anderson, President of the Vancouver  
6 Board of Trade is here this morning with a group of  
7 colleagues. Mr. Anderson will introduce his associates  
8 and speak to the brief which I now enter into the record  
9 as Exhibit 138.

10  
11 --- EXHIBIT NO. 138: Submission of the Vancouver Board  
12 of Trade.

13  
14 SUBMISSION OF THE VANCOUVER BOARD OF TRADE

15       Appearances: Mr. W.M. Anderson, C.A.  
16                    Mr. D. Selman, C.A.  
17                    Mr. J. Barbeau, LL.M.  
18                    Mr. D.H. Parkinson, C.A.  
19                    Mr. G.M. Morris  
20                    Mr. W. McCourt  
21                    Mr. R.T. Rose

22 THE CHAIRMAN: Thank you. Good morning, Mr.  
23 Anderson and gentlemen. Don't bother getting up unless  
24 you wish to do so. You are big enough so we can see you.  
25 I would appreciate it if you would introduce your  
26 colleagues to us. For my part I introduce to you the  
27 Commission whose names appear before us. We would like  
28 very much to go into this submission in considerable  
29 detail. We have a lot of questions to put to you. I  
30 suggest, if you wish to say a few words, then we will go  
down part by part and discuss it in that manner rather  
than trying to tackle it all at one time, if that suits  
you. Glad to see you.





A3 1 MR. ANDERSON: At the outset, representing the  
2 Board of Trade, you would expect me to welcome you to our  
3 fair city and assure you what we have outside goes on all  
4 year round. We put on a little display on Monday, but  
5 this was to show it could be both ways.

6 If I may introduce, Mr. Chairman, members of the  
7 Commission, the panel members and the people who are  
8 sitting at the front table.

9 At my far left is Mr. Rose, General Manager of  
10 the Vancouver Board of Trade, one of the members of our  
11 Committee; Mr. Parkinson, a member of the Price Waterhouse  
12 firm here in Vancouver; Mr. Jacques Barbeau, who has been  
13 Chairman our National Tax Policy Committee and member of  
14 the legal firm of Campney, Owen and Murphy.

15 On my right is Mr. Selman, a member of the  
16 chartered accountant firm of Peat, Marwick, Mitchell and  
17 Company. On Mr. Selman's right, Mr. Gerry - G.M. Morris,  
18 Assistant General Manager of the Vancouver Board of Trade  
19 and on his right, Mr. William McCourt, a member of Ben Crow  
20 and Associates, who have been acting as consultants and  
21 assisted in the compilation of the statistics which you  
22 find attached to the questionnaire portion of our brief.

23 Mr. Chairman, the Vancouver Board of Trade in  
24 deciding to make a submission to your Commission appointed  
25 a National Tax Policy Committee under the Chairmanship  
26 of Mr. Barbeau and with the assistance of active Committee  
27 personnel who are listed in the brief, which I don't  
28 propose to read and with the assistance of an active  
29 Advisory Committee, the personnel of which are listed in  
30 the brief.



A4 1 The Committee held a number of meetings and the  
2 results of the meetings and the results of the delibera-  
3 tions have been summarized in our brief. This brief is  
4 composed of two sections, and with the permission of the  
5 Chairman I would think that it might be more practical  
6 to deal, in the first instance, with the substantive  
7 portion of the brief down to the ninth section and then  
8 at the conclusion of that examination to turn to the  
9 questionnaire. I think probably there are a number of  
10 things we can discuss and I would like to make an intro-  
11 ductory statement when we come to discuss the question-  
12 naire. We have some additional information that is  
13 available to the Commission with respect to the question-  
14 naire and we might deal with that at that time.

15 The Vancouver Board of Trade, for the record,  
16 has a membership of some 2,600 people composed both of  
17 individual members and corporate members. At the present  
18 time there are approximately 1,200 corporate members and  
19 approximately 1,400 individual members. The membership  
20 is open to anyone in the City of Vancouver engaged in  
21 business and we believe that the Board represents a cross-  
22 section of the business activity of this City.

23 The objectives of the Board are set out on page  
24 2 and are very simple:

25 "To promote and improve economic, civic  
26 and social welfare in the City of Vancouver  
27 and the Province of British Columbia and,  
28 in particular, to foster and develop the  
29 expansion of trade and commerce in the area."

30 We believe we have an active Board and we believe





A5 1 we have a Board which is in touch with business and business-  
2 men in this city.

3 I have a brief statement I would like to make  
4 with respect to Section 2.1 before you get into discussion  
5 of the brief, because I would suspect there are questions  
6 with respect to all sections. Section 2.1 deals with  
7 taxation and government expenditures. In considering this  
8 particular section we recognized at the outset that the  
9 question of governmental expenditures is probably outside  
10 the scope of this Commission. We do feel, however, that  
11 we should place ourselves on record as considering that  
12 one phase of this problem cannot be intelligently discussed  
13 without consideration being given to the other.

14 Certainly no one enjoys taxation. No one is  
15 particularly interested in paying any more taxes than is  
16 necessary. We believe that the principles which govern  
17 the determination of an upward limit of taxation should be  
18 somewhat similar to the principles which govern revenue  
19 expenditures of individuals and businesses. It seems to  
20 us that at times governmental expenditures and governmen-  
21 tal budgets tend to be prepared in the opposite fashion  
22 with a determination of expenditures first made and from  
23 this determination of expenditures ways and means are  
24 sought of raising the required number of dollars in  
25 revenue. This does tend, I believe, to breed a loss of  
26 confidence in business of government. We believe if  
27 government would recognize the principle which business  
28 and individuals must recognize and must abide by, that  
29 expenditures must be measured by the size of revenue  
30 rather than revenue determined by the size of desirable



A6 expenditures the entire economy would move forward in a  
2 better manner.

3 We feel, also, that this procedure of determining  
4 expenditures and then looking for sources of revenue must  
5 have a retarding effect on the development and growth of  
6 capital in our country. This, in turn, of course, leads  
7 us to sell-out types of operations which have taken place  
8 in our country for a period of years and leads us again,  
9 in turn, to financial crises such as we have just  
10 experienced.

11 I don't think the two things, expenditures and  
12 revenue, can be completely divorced. I appreciate your  
13 chore is basically concerned with the source and the  
14 manner in which the revenue should be raised. We do feel  
15 that very serious consideration should be given to the  
16 other side and we feel there is substantial reason to  
17 believe a critical examination of the other side such as  
18 has been undertaken most recently, the expenditure side  
19 of the Government records, would result in your job being  
20 considerably less because the number of dollars that would  
21 be required could be substantially reduced. As business-  
22 men we feel that more emphasis being placed on this side  
23 of the picture would be very desirable and we would hope  
24 at some point in your deliberations and in your conclu-  
25 sions you could include some remarks with respect to this  
26 side of the picture.

27 Gentlemen, members of the Commission, I have  
28 nothing further to add for the moment. The brief, I  
29 believe, is quite voluminous. We are prepared to answer  
30 questions and, for convenience, questions with respect to



A7 particular sections being referred to one or other of four  
2 of our panel members. These will be answered by those  
3 panel members, but not to the exclusion of remarks from  
4 other members of the panel where they feel they can add  
5 something that would be helpful. We are prepared for  
6 your questions, sir.

7 THE CHAIRMAN: Thank you, indeed. It seems to  
8 me we should start on page 2, Part II, and I have reser-  
9 vations as to whether we should discuss 2.1, Government  
10 Expenditures, because as you point out this isn't  
11 primarily our job, but certainly there is a relationship  
12 between taxation and what the Government requires. I  
13 think I should note in passing that the percentage of the  
14 Gross National Product earmarked for taxation could be  
15 assessed not only in the best economic interests, but also  
16 in the best social interests.

17 What we might think of as the kind of Canada we  
18 would like to see - the total of all Canadians may not  
19 agree with us. I don't think the Government, like busi-  
20 ness, is being operated to produce profit, but to produce  
21 good social as well as economic conditions. I would hope  
22 the two could go hand-in-hand, one complementary to the  
2 23 other, but certainly we have heard a good deal about the  
24 proportion of G.N.P. that ought to be spent through  
25 government. We will hear more even though, as I said,  
26 I don't think it is our job.

27 Our job is to assess the amount likely to be  
28 spent, according to our terms of reference, and try to  
29 make up our minds how best to raise this money.

30 That brings us right into II. I don't think





A8 1 we wish to ask questions on 2.1. 2.2 you come down to

2 some interesting conclusions:

3 "A proportional rate of tax on individuals  
4 and a single rate on corporations or to a  
5 scale of rates of minimum progression  
6 which would approach that criteria."

7 This is an intriguing suggestion, that the  
8 personal rate should be proportional rather than progres-  
9 sive. Speaking for myself I would be concerned about the  
10 total of all taxation rather than one single tax and I  
11 don't know and I don't think you gentlemen do, but if  
12 you do I wish you could assist me, to what extent the  
13 total of all Canadian taxes are progressive or regressive  
14 or proportional. I think that must be where one starts,  
15 not selecting one tax. It will be the job of this Commis-  
16 sion to find out where we stand in that regard. If  
17 personal taxes were made proportional it may very well be  
18 that the whole tax system would be regressive and a man  
19 with a small income would be paying a bigger proportion  
20 than a man with a big income. I don't know. If you know,  
21 by all means tell us.

22 MR. ANDERSON: Mr. Barbeau.

23 MR. BARBEAU: I think here the degree of uncer-  
24 tainty results from the manner in which this was presented  
25 to the Royal Commission. What we are trying to suggest  
26 here in a few words in the preamble is that "consideration  
27 be given to the economic and revenue validity." What we  
28 are suggesting here is that some determination be made of  
29 the results, both revenue results and proposed economic  
30 changes resulting from that type of tax. What prompted



A9 1 this, as you are well aware, during the last year much  
2 has been discussed on this topic. Some of us feel that  
3 there are serious problems with it but we feel, neverthe-  
4 less, that we could perhaps resolve the question if we  
5 could see the revenue effect and the economic implications  
6 of such proportional tax, for example.

7 Then, we feel if we had this type of record it  
8 would resolve, and perhaps relieve, the business community  
9 of the problems involved in proportional tax. We just  
10 suggest and recommend an appropriate approach to the  
11 problem.

12 THE CHAIRMAN: I think I can say we share your  
13 views.

14 MR. BARBEAU: Furthermore, the few words pre-  
15 ceding even the preamble state the undesirable effects  
16 of our present tax structure can be minimized by re-allo-  
17 cation of tax burden. I think it is necessarily part of  
18 a study of proportional rate of tax that basic exemptions  
19 should probably be increased so as to obviate the need  
20 that they would, in fact, be regressive taxes.

21 THE CHAIRMAN: I have no idea. Perhaps that is  
22 so.

23 MR. ANDERSON: It is a relatively new subject  
24 and we would feel it would be desirable to have a study  
25 made of it. We are not in a position to do this study.

26 THE CHAIRMAN: I think you know there was a  
27 study made, a limited study made of the weight of taxing  
28 of individuals in Canada with regard to all taxes. I don't  
29 think it really did it in the way we are talking about,  
30 looking at income groups in the same way. As I understand

1 it studies have been made elsewhere. I think when one  
2 puts the whole picture of taxation together progression  
3 is a very different thing. Two: minimize the total impact  
4 of income taxes on corporation earnings.

5 COMMISSIONER PERRY: I was just wondering, Mr.  
6 Chairman, if they were putting these up simply by way of  
7 saying you regard these as the three major areas of study  
8 on which you are making no recommendations at the present  
9 time.

10 MR. ANDERSON: Our recommendation is consideration  
11 be given to the economic validity, and the economic vali-  
12 dity can only be determined after an adequate study is  
13 made.

14 COMMISSIONER PERRY: If you ~~are~~ just putting these things  
15 as a subject for study we couldn't take exception to that.  
16 They are major areas.

17 MR. BARBEAU: With this clarification: that we  
18 feel if answers could be derived to these questions the  
19 problems might be substantially reduced.

20 THE CHAIRMAN: Then "consideration be given to  
21 minimizing the total impact of income tax on corporation  
22 earnings"; you believe that there is a double impact on  
23 income taxes on corporation earnings or you wouldn't say  
24 this.

25 MR. BARBEAU: Yes.

26 THE CHAIRMAN: I am not sure everybody in the  
27 country accepts that. Some believe that corporation  
28 earnings are, to some extent, passed on through purchase of  
29 goods and services and that to the extent it  
30 is not passed on it is perhaps taken care of by dividend





11 credits. As I say, I don't know that all people are  
2 prepared to accept readily there is a double impact, but  
3 I take it you believe there is.

4 COMMISSIONER PERRY: May I point out we are  
5 dealing with a tax expert. He doesn't use the word  
6 "incidence"; he used the word "impact." It is undeniable  
7 there are two taxes and that is all he is saying.

8 MR. ANDERSON: The 20% tax credit would imply  
9 that.

10 THE CHAIRMAN: "Shifting the burden of taxation  
11 from income to commodity taxation" - certainly that has  
12 got to be looked at. Is there anything you would like  
13 to say to it?

14 MR. ANDERSON: Nothing further to add. That is  
15 a very sizeable subject, as you know.

16 COMMISSIONER WALLS: I would like to say some-  
17 thing: in your aim to be a guide to us, I notice that  
18 you state first as one of the suggestions that we should  
19 carry out a study on the possible increased use of  
20 commodity tax and we quite agree with you on that.  
21 Then apparently you lose your enthusiasm for the subject  
22 later in the brief, "in view of recent happenings."

23 That point I was interested in is why you didn't  
24 include the question of sales tax in your questionnaire.  
25 That might have been a guide to us.

26 MR. BARBEAU: I think, Mr. Chairman, if I may  
27 answer Mr. Walls directly:

28  
29  
30



dpw 1 we thought of it, and originally we had conceived two  
2 questionnaires but it developed that the one questionnaire  
3 took all of our energy and our resources and we stopped  
4 there. This is really a naive answer, but this in, in  
5 fact, what occurred, and we just by-passed the sales tax  
6 question.

7 MR. ANDERSON: I think probably in the light  
8 of subsequent events, it was as well we did. Our answers  
9 might have been quite confusing. They were coming in  
10 about the middle of June.

11 COMMISSIONER WALLS: Would your Board of Trade  
12 be prepared to give any further consideration to this  
13 matter of commodity taxes, and the type of commodity  
14 taxes?

15 MR. ANDERSON: We would be prepared to do that,  
16 yes. We have not done it to the present time. I see no  
17 reason why we would not undertake that if it would be  
18 helpful to the Commission.

19 If you would care to give us your direction on  
20 that at your convenience ---

21 THE CHAIRMAN: I just said to Mr. Walls I  
22 thought we might consider it at an executive session  
23 afterwards, and we appreciate your kind offer. I think  
24 perhaps we will take advantage of it. If so, we will  
25 communicate with you later on.

26 Broadening the tax base - an evaluation be  
27 made of the necessity of continuing, at the present  
28 level, the selective tax concessions afforded under the  
29 Income Tax Act.

30 Would you give me one or two examples of



B2

1 selective tax concessions?

2 MR. PARKINSON: Mr. Chairman, it was the thought  
3 of the Research Committee that in any responsible brief  
4 we had to make sure that we are not putting forward a  
5 series of requests for reduction in taxation without  
6 recognizing that the revenue flow had to be maintained.

7 It seemed to us in the Research Committee that  
8 some of the concessionary provisions of the Income Tax  
9 Act were put in there years ago for specific reasons;  
10 incentives to provide opening up of the country. Exploi-  
11 tation of natural resources, and so forth. We put forward  
12 a fairly broad suggestion, as it appears here, to the  
13 Advisory Committee, which is made up of many broad  
14 spectrums of business in Vancouver and the Advisory  
15 Committee agreed with the decision that the suggestions  
16 should remain in.

17 If an individual were asking for these conces-  
18 sions, it would not necessarily be representative of what  
19 the entire Board would agree with, but, for instance,  
20 Section 83(5), Section 11(1)(b) provide very generous  
21 reduction in income tax that may be no longer justified  
22 from an incentive point of view.

23 COMMISSIONER PERRY: I wonder if you would  
24 mind telling us what those sections cover? We are  
25 becoming less and less familiar with the Act as we go  
26 along

27 MR. PARKINSON: I thought that was the only  
28 way you would recognize them. 83(5) is, of course, the  
29 section of three years of income on new mines. 11(1)  
30 provides depletion to oil and gas companies and mining





B3 1 companies.

2 By no stretch of the imagination is the  
3 Research Committee or the Board of Trade suggesting these  
4 be abolished, but it may well be the present level is  
5 not required as incentive to corporate concerns to come  
6 in and open up the country. Backward countries. newly  
7 emerged states, would find such provisions probably  
8 imperative, to entice capital in where the risks are very  
9 high.

10 Other concessionary areas might disappear -  
11 at least the necessity for them might disappear - if the  
12 studies pertaining to things like proportional taxation  
13 showed that such taxes were, in fact, desirable, because  
14 proportional taxes might - I am not suggesting they do,  
15 I don't know; I haven't done a study along that line -  
16 they might represent a more balanced incentive to execu-  
17 tives, mine employees, with the result that isolated but  
18 possibly over-generous provision may no longer be neces-  
19 sary, such as 85(a), stock option benefits. Generous  
20 treatment of one-man pension schemes, registration of  
21 them, and so forth.

22 Then the other sections of the Act which  
23 possibly are anachronistic in this day and age, Section  
24 71, foreign business corporations. It has been more or  
25 less frozen in its tracks, but still exists. The related  
26 provision of Section 28(1)(e) and 28(1)(d) is perhaps  
27 outdated.

28 THE CHAIRMAN: What are they?

29 MR. PARKINSON: 28(1)(d) provides exemption on  
30 tax on dividends received from foreign companies which



B4 1 are owned more than 25%. 28(1)(e) is a similar exemption  
2 pertaining to foreign business corporations. Section  
3 35 may perhaps be found to be outdated by suitable study.

4 I repeat that we are not suggesting in any  
5 way that these provisions should just holus-bolus be  
6 repealed or cancelled. We are merely saying a study of  
7 their reason for existence may show that they are perhaps  
8 a little too high at the present time.

9 THE CHAIRMAN: Thank you very much.

10 MR. ANDERSON: There will probably be some  
11 further discussion with respect to that in the question-  
12 naire where two or three questions do touch on a some-  
13 what similar point.

14 THE CHAIRMAN: Shall we move on to 3.1, where  
15 you recommend: "a tax research division within the  
16 Department of Finance, which would undertake research  
17 and analysis of Canadian tax policies, the results of  
18 which would be available for public consideration." I  
19 wish you would expand on that a little bit. I was under  
20 the impression that there was a tax staff in the Depart-  
21 ment of Finance. I don't know whether they undertake  
22 research. I suppose they do some. I suppose they  
23 analyze Canadian tax policies to some extent, but I do  
24 not think they make the results available for public  
25 consideration.

26 MR. ANDERSON: That is part of the meat of the  
27 suggestion, sir. Certainly the impact will fall even-  
28 tually on persons other than those who make the studies  
29 and I think that the studies should also include reference  
30 to these people, educators, administrators, right across



B5 1 the country.

2 An over-simplification probably would suggest  
3 a perpetual Carter Commission of the Department might  
4 very well be the answer. Broad changes in tax policy  
5 would be the subject of open discussion at forums where  
6 this particular Committee would have the benefit of the  
7 thinking of people who are not directly concerned with  
8 the administration of the Act.

9 THE CHAIRMAN: That would not be a departmental  
10 committee?

11 MR. ANDERSON: It would be a departmental  
12 committee but inasmuch as the results of this research  
13 would be made public, it would follow and it would flow  
14 where the general public would be in a position to advise  
15 and to make known their feelings and their wishes with  
16 respect to the results of these studies.

17 THE CHAIRMAN: Hold hearings like the United  
18 States Ways and Means Committee?

19 MR. ANDERSON: I am not sure it would be neces-  
20 sary to hold public hearings. This would be something  
21 that could or could not be done as they found fit. I  
22 think the basic thought is that the results of these  
23 studies should be made public so that the general public  
24 is advised and is cognizant of the factors which have  
25 influenced changes in tax policy.

26 If, in the opinion of the general public,  
27 these factors have not been properly weighed, then the  
28 general public has the opportunity to express its opinions  
29 in that regard. Whether this is done through the publica-  
30 tion of findings and subsequent criticism, or whether it





B6 1 is done by hearings and subsequently the publication of  
2 findings would be a matter of choice.

3 THE CHAIRMAN: You are contemplating economic  
4 studies rather than tax structure studies?

5 MR. ANDERSON: I think it would involve both.

6 THE CHAIRMAN: Do you wish a public discussion  
7 on a study of how to close the loophole of surplus  
8 stripping? Would you think that would be a good subject  
9 for a public discussion?

10 MR. ANDERSON: I would think so. Being practi-  
11 cal in the consideration, I think most practising people  
12 would favour this type of thing, and they probably have  
13 better ideas about how the loopholes can be plugged than  
14 the people who are on the inside.

15 THE CHAIRMAN: Perhaps you are right.

16 MR. ANDERSON: We suggest, sir, this is an  
17 important recommendation.

18 THE CHAIRMAN: Yes, I think so. It follows,  
19 to some extent, the recommendation of the Joint Committee  
20 of Accountants and Lawyers, I think. It seems to me  
21 that they recommended that a group should be established  
22 to study tax policies within the Department. I am not  
23 sure that they went so far as to suggest that those  
24 studies should be made public. I don't think they did.

25 MR. ANDERSON: Probably not.

26 THE CHAIRMAN: I think this is very interesting,  
27 indeed. We have ourselves discussed this matter as to  
28 how one could bring this out in the public, and, of  
29 course, we will continue to do so.

30 MR. ANDERSON: We have a further recommendation



B7 1 later that touches on the same general topic. We will  
2 come to that in due course.

3 THE CHAIRMAN: Have you considered - I think  
4 you have - the possibility of combining the Department  
5 of National Revenue and Finance?

6 MR. ANDERSON: Yes, sir, we have.

7 THE CHAIRMAN: You have decided against it,  
8 I take it?

9 MR. BARBEAU: This is dealing with Point 3,  
10 No.2, is it?

11 THE CHAIRMAN: Yes.

12 MR. BARBEAU: Well, I think there are a number  
13 of points here and we couldn't deal with all of them. I  
14 think in the opinion of some of the members of the Board,  
15 it was their conclusion that the Minister of Finance  
16 seemed to be over-burdened with work and his Department  
17 the same and that perhaps a functional re-alignment might  
18 be warranted perhaps for tax policy or tax legislation,  
19 at least, in the way of a commission, a tax commission.

20 What we were directing ourselves here to was  
21 the point that there seemed to be too great a division  
22 of authority between the three departments. Certainly,  
23 in the area of legislation on tax legislation, we feel  
24 that much too great a division of authority between the  
25 Department of Justice and the Department of Finance  
26 exists, and this has been indicated sometimes - perhaps  
27 the policies are sometimes frustrated by the time they  
28 are implemented into the tax laws.

29 What we are recommending: that while it may be  
30 advantageous to have a melding of the Department of



B3

1 Finance and National Revenue, nonetheless there should be,  
2 at least in our opinion, a closer relationship between  
3 the legislation, the drafting of the legislation, and  
4 the formulation of tax policy.

5 We suggest this should be done in the same  
6 Department and that it seemed to be unwarranted to have  
7 to bring in the Department of Justice, who may not be  
8 familiar with the policies or mechanics of administration,  
9 to draft the tax laws.

10 THE CHAIRMAN: I am under the impression that  
11 the Justice Department attends policy discussions  
12 leading towards the drafting of legislation. I think  
13 you know better than I do, Mr. Barbeau. You  
14 have been there.

15 MR. BARBEAU: It may vary, I think, Mr. Chair-  
16 man, but I think in many instances they come in perhaps  
17 at the resolution stage and are not, because of their  
18 workload, are not that concerned and perhaps are not  
19 professionally equipped. I think it would be much better,  
20 on a long-term basis, especially, to consider further  
21 to have a legislative staff within the Department of  
22 Finance.

23 COMMISSIONER PERRY: I think that was the  
24 position at one time, Mr. Barbeau, and that the trend  
25 in recent years has been towards more professionalization  
26 in drafting in the Department of Justice. They now  
27 insist, I think, on doing all drafting for all departments,  
28 and will not tolerate, or will regard with disdain, any  
29 drafting that is done by other departments, which is  
30 usually quite right, because a departmental solicitor





1 is ordinarily not a draughtsman. This is a rather skilled  
2 business, so what you are suggesting really is a reversal  
3 of a process which has gone quite far throughout the  
4 whole government.

5 MR. BARBEAU: That is right.

6 COMMISSIONER PERRY: With the Department of  
7 Justice now doing substantially all the drafting.

8 MR. BARBEAU: That is right.

9 COMMISSIONER PERRY: I must say I do not share  
10 your misgivings about the kind of contacts that a draughts-  
11 man has. At least in my day he was there throughout all  
12 discussions and generally ended up just as thoroughly  
13 familiar with the policy as anyone else involved.

14 There is the other disadvantage that this is  
15 an in and out performance. He is there for the job, and  
16 attempts to do his best in implementing the decisions  
17 and then, of course, goes back to do other drafting in  
18 his department.

19 COMMISSIONER GRANT: Just in furtherance to  
20 that line of thinking, it has been intimated to us that  
21 due to the manner in which legislation is put before the  
22 House, having regard to the secrecy which surrounds the  
23 budget, that the legal department, the Department of  
24 Justice, who are in charge of the drafting of this  
25 legislation into the form of a bill, that they are  
26 entirely too rushed. They haven't time to consider all  
27 the implications with the result that these anomalies,  
28 these inequities do creep into the legislation.

29 They are found out after the bill has been  
30 enacted and then amendments must come forward to correct



B10 1 the situation which might never have arisen had there  
2 been sufficient time to think these things out. That  
3 has been put before us by one or two responsible authori-  
4 ties.

5 This is, no doubt, a matter which the Commission  
6 will be giving consideration to.

7 MR. BARBEAU: I think the problem would be  
8 obviated somewhat if you had a senior legislative counsel  
9 in the Department of Finance who would work not on a  
10 two or three-month basis throughout the year, but would  
11 be there year in and year out and would become thoroughly  
12 conversant with the legislation of tax laws and recog-  
13 nizing that sometimes he may be pressed for time, his  
14 experience would come into play, which I suggest does  
15 not occur at the present time, and this is where I would  
16 feel - and I think some of the members that have had  
17 practical experience with the Department feel - that  
18 the problem would be minimized if you had an expert  
19 with wide experience, expert personnel, legislative  
20 counsel and his staff which could consider new legisla-  
21 tion and implement it where the need occurs, quickly  
22 and effectively and we feel that this could better be  
23 done or more effectively be done in the Department of  
24 Finance than bringing someone from the Department of  
25 Justice on an interim and a pro tem basis.

26 COMMISSIONER GRANT: Should there be a  
27 continuing committee set up such as you have suggested  
28 here this morning that might have a senior official within  
29 that committee with legal training?

30 COMMISSIONER PERRY: The only comment I can make



B11 1 on that is that when this system did prevail, this  
2 counsel was so busy with the day-to-day legal affairs  
3 of the Department, that the tax people could never get  
4 to him and, as a result, the drafting of legislation  
5 got far less attention that it does now.

6 It is like hiring a thinker who is going to  
7 sit with his feet up on the desk. He ends up emptying  
8 the waste paper baskets within a week of being hired.  
9 I think the same thing happens to departmental counsel.

10 MR. BARBEAU: Using the analogy of the Depart-  
11 ment of National Revenue, with their legal branch which  
12 certainly has worked very well and very effectively,  
13 this is what we were considering, where the tax legis-  
14 lation counsel would be primarily responsible for legis-  
15 lation, solely responsible for the legislation the same  
16 way as the legal staff in the National Revenue Department  
17 is solely responsible for Tax Appeal Board cases.

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C/PB/dpm

COMMISSIONER PERRY: I think we can agree no

one is happy with the present situation, even the people involved.

MR. ANDERSON: We would think if the recommendations included in 3.1 were followed and implemented this would alleviate some of the necessity for the secrecy at the present time with respect to all items, possibly except rate changes and things like that, which of necessity must be secret. A lot of the things that are done in secret could probably be just as effectively done after a complete and free discussion of policy.

THE CHAIRMAN: Everybody seems now to wish to throw out budget secrecy. That is pretty well accepted. I would think you are on a sound wicket there. Whether this is where to proceed from that point on we will certainly consider, but it is very clear it is a major problem and has to be thought about a great deal. We are glad to have your views. Where are we now?

COMMISSIONER WALLS: 4.1.

THE CHAIRMAN: In 4.1 you endeavour to seek equality between various kinds of organizations which are in business and which you say are at the present time not treated in the same manner. One objective here that I would like to put my finger on right away is the distinction between privately-owned public utilities and publicly-owned public utilities. What is the solution to that? Is it to exempt them fully from taxes altogether or to fully tax the public ones?

MR. SELMAN: The solution obviously must be to force the publicly-owned ones to pay taxes or, at





1 least, to set their rates as if they are competitive public  
2 utilities competing actively with privately-owned ones  
3 to have a fair burden of payment in such a way that they  
4 would have to set their rates to cover the amount and  
5 thus reduce the disadvantage to the private utility who  
6 has to pay taxes.

7 COMMISSIONER WALLS: I think especially during  
8 the period when there is indecision as to whether they  
9 are public or privately-owned.

10 MR. SELMAN: The hydro-electric situation is  
11 probably not a good example of this. After all, the  
12 B.C. Electric is not today competing with some other  
13 power company, the B.C. Hydro Company. You get a  
14 different situation in the case of publicly-owned rail-  
15 and operating trucking lines

16 THE CHAIRMAN: Would you pay the taxes from  
17 public utility commissions to the Federal Government?

18 MR. SELMAN: Probably not. Again, obviously,  
19 you have the constitutional problem. Perhaps this could  
20 be adjusted through other fiscal measures between the  
21 two governments. I think at the present time some  
22 generous payments are made to the provinces in other  
23 ways which might be worked through to set this up.

24 THE CHAIRMAN: It would only achieve the  
25 things you are seeking if such payments were included  
26 in the utility rates; am I not correct?

27 MR. SELMAN: That is correct. That is the  
28 problem.

29 THE CHAIRMAN: Therefore, you can't go adjus-  
30 ting grants and hope they will be picked up in the



C3 1 utility rates. I don't think it would work that way.

2 MR. SELMAN: It would follow. The province  
3 needs a certain number of dollars; if it doesn't get  
4 as much from one source it may have to use these  
5 utility rates. I think it is fair to say that the  
6 principle concerned here is and always has been a  
7 subject that has been hashed out before and probably  
8 will be hashed out again with you on your trip across  
9 the Prairies, equally the question of co-operative  
10 ventures which have extended considerably beyond their  
11 original philosophy, what I think is their original  
12 philosophy.

13 THE CHAIRMAN: Would you mind repeating the  
14 last sentence? Some of us didn't hear it.

15 MR. SELMAN: What I am referring to is the  
16 Board's plan of co-operatives, which basically is that  
17 the co-operatives obtain a competitive advantage through  
18 not having to pay taxes which enables them to under-price  
19 or else to finance expansion of their facilities which  
20 they couldn't do if they were taxed. This is an old  
21 subject; no doubt you have heard from both retail  
22 merchants and the co-ops. The Board has always taken  
23 the position that the co-ops, even at the risk of some  
24 pricing out, should pay their fair measure of tax.

25 THE CHAIRMAN: Thank you. Moving on to a  
26 matter of certainty, have you considered the definition  
27 of capital gains or income? We keep on hearing that  
28 this Commission should define capital gains. With this  
29 point of view we are sympathetic. I don't think any  
30 country yet has been very good at this. There have been



04 1 classifications made to bring transactions into one area  
2 or the other area but we would be very happy if somebody  
3 would come up with some definition.

4 MR. ANDERSON: I will refer to our legal  
5 advisor.

6 MR. BARBEAU: I don't think it was a matter  
7 of definition we were looking at. I think the whole  
8 problem of this is the evolution in part of the courts  
9 under the umbrella of the very wide definition of busi-  
10 ness in the Act. We are not suggesting any new defini-  
11 tion of what is or is not capital gain, only the defi-  
12 nition of business in the Act to include any undertaking  
13 whatsoever including adventure in the nature of trade.  
14 It is so wide an umbrella that the courts might do well  
15 to determine it and it would extend its ability to tax  
16 profits which otherwise might not have given rise to  
17 taxable income.

18 It is not so much of a matter of a new defini-  
19 tion but valuing the present definition of business which  
20 includes this all-encompassing definition of any under-  
21 taking whatsoever. Under that umbrella we have no  
22 direct interpretation in the law. You can have a capital  
23 gain in Canada. I think it is a matter of elaboration  
24 rather than definition.

25 The law is very clear as to what was a capital  
26 gain 25 years ago, and it certainly is no longer the  
27 same. I think the question of stock market gains is  
28 one we will be confronted with very shortly.

29 THE CHAIRMAN: Thank you very much. Have you  
30 any questions on this?



C5 1 COMMISSIONER GRANT: Are you discussing 5.3?

2 THE CHAIRMAN: I am reading 5.4 at the moment.

3 COMMISSIONER GRANT: Before going on to 5.4,  
4 as to what is a capital gain or when the donkey's tail  
5 ends and his backbone begins, is a matter that has been  
6 before the court, as you know, and I am under the impres-  
7 sion there was a fairly recent case in the Exchequer  
8 Court - it was dealing with real estate, but the  
9 law as laid down there would be applicable to any  
10 form of capital gain.

11 The main point, I believe - in the real  
12 estate case as to whether or not real estate is to  
13 be taxed as a capital gain or the application is  
14 to be taxed as income, depends to a large extent, accor-  
15 ding to that decision, on the intention of the taxpayer  
16 at the time he acquired the property. Are you familiar  
17 with the case?

18 MR. BARBEAU: Yes, I think that is a common  
19 concept. I think really that it is an artificial one.  
20 I am afraid while you have a decision which stands in  
21 one case in another instance it will not. I think the  
22 intention of a taxpayer is something very difficult to  
23 pinpoint, apart from the fact that normally he wants to  
24 get a profit and if the courts so look at it it has  
25 the legislative umbrella to do so.

26 COMMISSIONER GRANT: It leads me to the quest-  
27 ion that I was going to ask you and get your comments  
28 on: whether or not you think the courts will eventually  
29 come up with a definition that will be satis-  
30 factory without the necessity of one being laid down by





06 1 the Act.

2 MR. BARBEAU: Mr. Chairman, now, all I can  
3 answer there, under the strict interpretation of this  
4 definition of business in the Act, I can't for the sake  
5 of me conceive of non-taxable capital gains today.

6 THE CHAIRMAN: That seems like a pretty  
7 complete answer. Do you think the situation would be  
8 improved at all if rules were added to whatever we have  
9 now saying that transactions would not be considered  
10 taxable if in the case of securities they were held for  
11 a certain period of time or properties were held for a  
12 certain period of time, lay down a flat rule of that  
13 kind? There is precedence in other countries. Would  
14 that be all right?

15 MR. BARBEAU: I think it would certainly be  
16 all right; there is no doubt about it. It would certainly  
17 give you a guide line and perhaps be much fairer from a  
18 social point of view as well as an equitable one. In  
19 this instance certainly if we look at the stock market -  
20 if you are found taxable four years after the event you  
21 are taxed at a highly progressive rate which may, in  
22 fact, confiscate all your gain. Certainly if there was  
23 rules of retention this would certainly minimize the  
24 problem.

25 MR. PARKINSON: There seems little doubt that  
26 the court cases are only a transitory help in deter-  
27 mining if income is taxable or not. There have been  
28 some on primary intention, secondary intention, holding  
29 for a period of time and with more court cases coming  
30 along and something is altered, not necessarily fully  
revoked, and



C7

1 you get a changing pattern.

2 MR. SELMAN: I think your suggestion is a good  
3 one and acceptable to many people looking at it intelli-  
4 gently. The very reason that it brings the element of  
5 certainty, which even if it is unfair in certain cases,  
6 it at least allows a man at a certain point in time to  
7 see what is going to happen rather than leave him in the  
8 position of having entered into the transaction and then  
9 having to wait and have it determined.

10 THE CHAIRMAN: Do you think the community  
11 would be prepared to accept the unfairness that would  
12 undoubtedly arise by such a rule in order to achieve  
13 MR. SELMAN:  
14 certainty? The uncertainty of the situation is more  
15 unfair than what would result from that.

16 MR. ANDERSON: I think there would be socially  
17 desirable elements flow from this. I think we can also  
18 give numerous situations where a business transaction  
19 and business procedures are at a standstill because of  
20 the uncertainty of this particular type of tax that  
21 might come along, as Mr. Parkinson said, some four years  
22 later.

23 MR. PARKINSON: I would like to switch briefly  
24 to Section 6(1)(j): that is the taxability on profits  
25 which are used in production or on a piece of property ---  
26

27 that section should receive considerable study  
28 and considerable modification as to its precise intention  
29 as to what transactions it applies to.

30 COMMISSIONER GRANT: The next question is as to



CS 1 whether or not the taxing statute should take the form  
2 of a codification of the law or whether it should be  
3 left to "stare decisis."

4 MR. BARBEAU: I have a feeling, Mr. Chairman,  
5 the re-evaluation of the definition of business, the  
6 word undertaking, may very well resolve a great deal of  
7 the dilemma and the adventure in the nature of trade is  
8 as well-established as any principle of law can be.  
9 The term any undertaking whatsoever in the definition of  
10 business is one - it is pretty broad, everything from  
11 an undertaking is taxable under that section.

12 THE CHAIRMAN: It seems to be pretty broad.  
13 I made a note we will certainly not overlook it. It  
14 wouldn't have been overlooked before, but we have your  
15 views. Thank you.

16 I think we will now move on to 6. There is  
17 a sentence I don't understand, in the second paragraph  
18 under 6, second sentence:

19 "Indeed, in certain particular circumstances,  
20 there exists no specific tax legislation  
21 clearly setting out the incidence of taxa-  
22 tion."

23 I am lost, I am afraid. My understanding of  
24 the word "incidence" comes from the gentleman on my left  
25 and means where the tax finally rests and I would  
26 think legislation would never seek to do that.

27 MR. BARBEAU: I think perhaps the word should  
28 be "application."

29 THE CHAIRMAN: Application of taxation. Let  
30 us see if I understand it now. I think probably it may



C9 1 be clear if I go down to the recommendation at the  
2 bottom.

3 MR. BARBEAU: What we had in mind was partly  
4 resolved by the budget. The bankruptcy situation wasn't  
5 really governed by any specific provisions. There are  
6 certain commercial transactions which are not governed  
7 by any specific legislation. Bankruptcy is, of course,  
8 now removed but reorganization under Section 8(1) - it  
9 is difficult to define what a reorganization is. There  
10 is no guide line.

11 THE CHAIRMAN: Going down to the recommendation  
12 under 6:

13 "Establishment of an interpretive regula-  
14 tion procedure."

15 I am not very clear what is intended there,  
16 but I think it is a statement that you would like to  
17 have determination as to how they intend to operate  
18 under the different sections of the Act. I have an idea  
19 the assessors use a book of instructions and I presume  
20 that book of instructions is to them interpretive  
21 regulations, but isn't made public. Would your proposal  
22 be taken care of if that book were made public?

23 MR. BARBEAU: No, not in my opinion, Mr. Chair-  
24 man. We must recognize that the assessors must have  
25 their own internal guide lines, their policy guide lines,  
26 and certainly that is not to be made public; what  
27 returns they look into, and the guides they follow.  
28 What we have in mind was more the American system where  
29 you have regulations that you class an interpretive  
30 regulations that interpret the policy of the assessor





Clq or at least the meaning that they ascribe to various  
2 sections of the internal requirement. That is what we  
3 had in mind. For example, the word "reorganization"  
4 would be defined in Section 8(1) and examples given  
5 such as is done in the United States regulations.

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2 THE CHAIRMAN: Wouldn't such a plan work to  
3 the detriment of the Department in that where matters  
4 went to court they would be, to some extent, I presume,  
5 committed by their interpretation of the regulation.  
6 It would be very hard for them to operate in the other  
7 direction. Whereas, the taxpayer would go in either  
8 way, whichever suited him.

9 MR. BARBEAU: They have to make that decision  
10 at the moment. If they are going to assess, they must  
11 have a policy; they must interpret the section at the  
12 moment, and if you meet with them in the district  
13 office they do tell you how they interpret various or  
14 particular sections.

15 There are some that perhaps are too broad  
16 and perhaps it wouldn't be possible to expect them to  
17 give us a definitive answer to them, but I think those  
18 areas where they do have guides, which they tell you  
19 if you 'phone them, they tell you now and they make a  
20 determination of the guide lines.

21 In those instances we say these should be  
22 public. They are bound by them now. We feel that if  
23 that is the case, these should be made public. If the  
24 courts come back, as is the case in the United States,  
25 a regulation can be upset, then it just means the  
26 Department wrongly interpreted the section.

27 MR. PARKINSON: In any event, presumably the  
28 interpretive regulation wouldn't have the force of law  
29 so it is open to the Department to introduce further  
30 interpretation in the court.

THE CHAIRMAN: If they should issue interpretive



1 regulations with regard to bad debts, this is something  
2 that they can arbitrarily arrive at conclusions in  
3 respect of. It seems to me that the area of discretion  
4 would be greatly narrowed. There would be more certainty  
5 as to what they were going to do. I think I would agree  
6 with that.

7           Would that make for more equity as to the  
8 treatment? I am very uncertain whether it would. The  
9 present uncertainty may provide the taxpayer with a  
10 better opportunity to get a suitable conclusion to his  
11 own case.

12           MR. BARBEAU: Well, that certainly applies to the  
13 tax practitioners' gambit of dealing with the Department  
14 in trying to arrive at this satisfactory solution. Of  
15 course, there are many taxpayers that would be able to  
16 afford, or have this professional type of service, who I  
17 think in the long run should query whether it wouldn't  
18 be equitable or not to have definite tests, and then,  
19 also, if you do make a settlement query whether someone  
20 else did not make a better one than you did.

21           THE CHAIRMAN: Moving on to Part II: "That  
22 consideration be given to the implementation of an  
23 advance ruling procedure..." We are, of course,  
24 hearing many recommendations in favour of this procedure  
25 which we all know is very common in the United States.  
26 Presumably this amounts to assessments or the equivalent  
27 of assessments based on circumstances stated before the  
28 Tax Department and I would assume that you would not  
29 expect them to be bound by it any more than they really  
30 are now when you get an opinion from the Department



D3

1 saying if you carry things out, as you indicate, we  
2 believe the tax would result. Is that what you have  
3 in mind?

4 MR. ANDERSON: We would feel they should be  
5 bound by these rulings because business would accept  
6 those rulings as an opinion and govern their procedures  
7 on the basis of what answers they have received. Other-  
8 wise, put us back in the same position that we are today  
9 if we receive a ruling which was not binding on the  
10 Department.

11 THE CHAIRMAN: Is it unsatisfactory today?  
12 I thought it was not bad.

13 MR. ANDERSON: I think, coupling No. 5 with  
14 No. 6, our conclusion is that it is unsatisfactory at  
15 the present time because there are areas where, if you  
16 ask a question, the answer you get is, "Go ahead and do  
17 it, and we will tell you after you have done it whether  
18 it is taxable or not.

19 This causes a complete stalemate in a trans-  
20 action which could have very beneficial effects all  
21 around.

22 THE CHAIRMAN: That is occurring, is it?

23 MR. ANDERSON: Yes.

24 MR. PARKINSON: I think it is true that some  
25 years ago there was no particular difficulty in obtaining  
26 unofficial pre-rulings from Ottawa. In Vancouver, at  
27 any rate, we are told that this procedure is frowned on  
28 considerably and it is now, I would say, exceedingly  
29 difficult to get an unofficial pre-ruling.

30 MR. SELMAN: Particularly if you have more than





D4 1 normally complicated sets of facts to go on.

2 THE CHAIRMAN: You would expect to obtain such  
3 a ruling at your regional or local office?

4 MR. PARKINSON: Not necessarily.

5 MR. ANDERSON: You would deal with it through  
6 your local office, but if it were necessary to refer it  
7 higher up, then we would expect a ruling which would be  
8 binding on the Department.

9 THE CHAIRMAN: The answer to my question is  
10 in the affirmative, then, because as far as the taxpayers  
11 were concerned it would go to the local office?

12 MR. ANDERSON: You would get the ruling from  
13 the local office, but if the local office did not feel  
14 qualified to give that ruling, they would have to get it  
15 somewhere else. You would get it directly from the local  
16 office.

17 MR. SELMAN: When it comes down to the problem  
18 of deciding what is better in a tax system, simplicity or  
19 certainty, from my own point of view and my own experience,  
20 I would say that certainty is more preferable of the two  
21 choices.

22 MR. PARKINSON: I would just like to add some-  
23 thing to Mr. Anderson's remarks with respect to the tax-  
24 payer who goes to his local office; I think if a pre-  
25 ruling board were established, it would be desirable  
26 that the taxpayer would have a right to present his case  
27 in Ottawa if need be, if it was a very complicated one,  
28 and very obscure points of law involved.

29 THE CHAIRMAN: Mostly in the United States  
30 they rush down to Washington, I believe. As a matter of



D5 1 interest do you know whether the Department in the  
2 United States is bound by their advance rulings? I  
3 have an idea that there is a qualification in their  
4 reply.

5 MR. BARBEAU: The qualification is if the  
6 law changes, is my understanding on that. If the case  
7 law changes in between, or legislation is varied in  
8 between, then the ruling does not stand but it governs  
9 the assessment policy of the Internal Revenue Department.

10 MR. PARKINSON: And, of course, it follows if  
11 the taxpayer alters his plan in any way.

12 COMMISSIONER PERRY: There is a whole philosophy  
13 involved in this subject which bothers me. In this context  
14 obviously we are not talking about the things that are  
15 plain for all to see. Most people can read the statute  
16 and get the general idea of what a section is trying to  
17 do. What we are dealing with here is the very nub of  
18 all the controversies in tax administration.

19 MR. PARKINSON: Not necessarily, sir. I might  
20 just take, for instance, under Section 60, or Section 20,  
21 where the Department may exercise discretionary power  
22 to allocate proceeds and if the policies are being kept,  
23 that could well be a good subject for a pre-ruling.

24 COMMISSIONER PERRY: What bothers me is  
25 that most of these are areas in which a person, even  
26 with a sound body and rational mind, could come to one  
27 decision one day and another decision the next day.  
28 It may not be possible to have all these things by  
29 themselves set out in black and white. There may be a large  
30 element of negotiation and exchange views and compromise



D6 1 simply because of the nature of the millieu; I don't  
2 know. Obviously, you are not talking about sections  
3 of the Act which are easily explained in any  
4 of the little books on how to make up your  
5 income tax, or things of that sort.

6 You are thinking of the most complex matters  
7 about which everyone scratches their head when they  
8 come up against them, and naturally this is why you  
9 want certainty. I am just puzzled as to whether this  
10 is the way you get it and whether this is the way one  
11 should be trying to get it.

12 MR. ANDERSON: One would expect that in the  
13 determining of these rules there would be negotiations  
14 and exchange of ideas. If it is a complex set of circum-  
15 stances, and a complex set of facts, this is probably all  
16 the more reason why pre-rules would be necessary; the  
17 fact that conditions could change or a man's mind could  
18 change from day to day.

19 COMMISSIONER GRANT: I would venture to suggest  
20 that there is not so much uncertainty as to how the law  
21 stands. Insofar as the Income Tax Act is concerned there  
22 are certainly some sections where it can be interpreted  
23 in one or two, or a lot of ways, but, by and large, the  
24 law is fairly well-determined. It is fitting the parti-  
25 cular facts of the taxpayer's case into the law that  
26 creates the problem. Would you agree?

27 MR. PARKINSON: Yes, in general, I think.

28 MR. SELMAN: It is a difficult question and  
29 a very shrewd one, too. In many cases, your problem  
30 comes where you are trying to arrange your affairs to



D7 1 obtain the advantage the law gives, and it is difficult  
2 2 to do so on occasion.

3 In many cases, also, you are, as a businessman,  
4 trying to go into a venture, a business venture, of some  
5 sort and you want to know, as a matter of your planning,  
6 what the taxes are going to be, but they say to you -  
7 and I don't suggest they do this all the time, but  
8 frequently enough that this is a difficult problem,  
9 they say, "Well, go ahead and we will look at it after  
10 you have done so and then tell you what we are going  
11 to do."

12 That is not satisfactory to somebody who is  
13 talking about spending a large sum of money. I can give  
14 you a case in point. In this province there is consi-  
15 derable transfers back and forth of timber and timber  
16 limits which frequently carry a quota or right to acquire  
17 more timber and the purchaser is in some doubt as to  
18 what write-off, if any, he can get on the sum of money  
19 that he has spent to acquire this quota, as well as the  
20 vendor being faced with the problem which we have dis-  
21 cussed at length today of whether or not he has made a  
22 capital gain on the disposition of his timber.

23 Now, we can, perhaps, sympathize with the  
24 vendor being left on the end of the fork and having to  
25 wait until the Department approaches him and decides  
26 whether it is a capital gain or not, but surely a  
27 purchaser who is expanding his timber industry should  
28 be entitled to find out ahead of time whether he is  
29 going to get tax relief for his timber holdings or not.  
30 It is very difficult and you can't find out. The





D8 1 Department will not tell you what they are going to do.

2 MR. PARKINSON: Indeed, the final answer is  
3 that the directives were issued on the pension plan  
4 certification that were later withdrawn from the Depart-  
5 ment. Again, this is an area we are not talking about  
6 that has any difficulty here but one must go to Ottawa  
7 to find out what was in the Blue Bulletin.

8 MR. SELMAN: On that subject, the Blue Bulletin  
9 isn't followed. In fact, pension plans are going through  
10 today which far exceed the concept set out in the Blue  
11 Bulletin.

12 THE CHAIRMAN: The Blue Bulletin has been  
13 withdrawn.

14 MR. PARKINSON: That is right.

15 COMMISSIONER PERRY: It was withdrawn because  
16 it was not working. There were cases which it had not  
17 covered. I am disturbed about this whole area, I must  
18 say. I don't know what will emerge from it.

19 MR. ANDERSON: Business is disturbed too, sir.

20 COMMISSIONER PERRY: It seems to me that this  
21 question of the uncertainty of the application of the  
22 law is the reason we have courts, apart from settle-  
23 ments of equity between litigants. If the law were always  
24 crystal clear, we would not need any courts and, there-  
25 fore, you are saying, "Let's put some of this judicial  
26 function into the Department," and it is an open ques-  
27 tion in my mind as to whether that is where it should be.

28 MR. PARKINSON: Wouldn't you agree that the  
29 present volume of cases before the Appeal Board is  
30 undesirable? An undesirably high number?



DS 1 COMMISSIONER GRANT: Couldn't you make the  
2 same criticism as to any branch of the law or any court?

3 COMMISSIONER PERRY: The present volume of  
4 traffic offences is pretty high, too.

5 MR. PARKINSON: I don't think they are analogous,  
6 myself.

7 COMMISSIONER PERRY: I mean it is part of a  
8 system that if you can't understand how the law applies  
9 to you, you go to court or the other side takes you to  
10 court.

11 MR. PARKINSON: That begs the question of the  
12 adequacy of the legislation, surely?

13 COMMISSIONER PERRY: No.

14 THE CHAIRMAN: I think when we contemplated  
15 the Income Tax Appeal Board in 1948, whenever it was,  
16 we hoped that the result of that would be to narrow  
17 the law, to make the law more certain, and I suspect  
18 it has gone some distance to do that which it certainly  
19 would not have done if there had not been a sufficient  
20 number of cases provided. I am not sure there are too  
21 many cases now. I don't know. I haven't looked, but  
22 I don't think I have heard that before and it has not  
23 been suggested to us that there are too many cases  
24 before the Board.

25 COMMISSIONER GRANT: Also the prime purpose  
26 of setting up the Tax Appeal Board was that a taxpayer  
27 could get his case heard quickly and at a minimum of  
28 cost. It was never contemplated that the law would  
29 ever be sufficiently clear that a case would not have  
30 to be referred to a competent tribunal for



D10 1 interpretation.

2 MR. SELMAN: If one of the functions is to  
3 get your case heard quickly, then the present volume  
4 has prevented the Tax Appeal Board from doing this.

5 COMMISSIONER GRANT: It could be they could  
6 set up better facilities for handling the cases.

7 THE CHAIRMAN: We are studying the Tax Appeal  
8 Board and will continue to do so.

9 COMMISSIONER PERRY: Obviously we are arguing  
10 this in black and white, too, and there is probably a  
11 middle ground somewhere.

12 THE CHAIRMAN: We are at 7.1, or have we moved  
13 into estate taxes?

14 MR. ANDERSON: Having in mind, Mr. Chairman,  
15 that 7 and 8 deal with different statutes, would there  
16 be any virtue in moving to No. 9, which deals again with  
17 the Income Tax Act, and then maybe deal with the question-  
18 naire, and having completed the submission with respect  
19 to the Income Tax Act, to return to Sections 7 and 8?

20 THE CHAIRMAN: All right. You recommend a  
21 decennial review of the Income Tax laws. Is your inten-  
22 tion to have a Royal Commission appointed every ten  
23 years?

24 MR. BARBEAU: Not necessarily. I think, Mr.  
25 Chairman, that we feel that perhaps this is a measure -  
26 again, I don't want to be black and white, but we feel  
27 that there should be a formal review of the taxing laws  
28 every ten years. After a ten-year period I think the  
29 Act warrants a re-examination of its structure, if not  
30 the policies, at any rate.



D11

1 THE CHAIRMAN: By using the word "re-examination"  
2 you mean something of the kind that is now going on, I  
3 take it?

4 MR. BARBEAU: I think, perhaps, I can phrase  
5 it this way: if there is a need for the Banking Act to  
6 be reviewed perhaps every ten years, perhaps there is  
7 some need for the Income Tax Act and other taxing  
8 statutes to be reviewed.

9 THE CHAIRMAN: Thank you. I think we can  
10 understand that. Estate taxes. You would exempt foreign  
11 capital brought in to Canada from the existing 15%. I  
12 believe that is the estate tax that now exists.

13 MR. SELMAN: This recommendation goes beyond  
14 that. This is a reference to exempting foreign capital  
15 brought in to Canada by people who come in to Canada  
16 and become domiciled in Canada and on their death their  
17 estate would be measured against what accretion there  
18 had been during the period that they were in Canada.

19 THE CHAIRMAN: And the accretion only taxed?

20 MR. SELMAN: Correct. In other words, if  
21 somebody that was very wealthy, living in Hong Kong,  
22 wishes to come to this country and brings with him,  
23 let us say, \$1 million, then only the amount by which  
24 his estate exceeds \$1 million on his death should be  
25 taxed.

26

27

28

29

30





E/PB/dm This is set out in its most naive form. It may be  
2 necessary that change in the purchasing power would also  
3 be measured in this.

4 THE CHAIRMAN: The purpose of this is to  
5 encourage people of wealth to come in to Canada and  
6 become domiciled in Canada.

7 MR. SELMAN: That is right.

8 COMMISSIONER PERRY: There might be a question:  
9 would he just bring it here the day he arrived or would  
10 he stay with it? What form would it be in?

11 MR. SELMAN: It wouldn't matter whether the  
12 wealth itself came. If the fellow was domiciled here  
13 he could hardly become domiciled in Canada for a day.

14 COMMISSIONER PERRY: He could bring his  
15 wealth for a day and send it back.

16 MR. BARBEAU: We don't feel it matters where  
17 his wealth is. If he becomes domiciled there would be  
18 income tax here and it wouldn't matter whether he  
19 received his earnings in Zurich or Hong Kong.

20 MR. SELMAN: He would still pay tax on the  
21 world estate on his death.

22 COMMISSIONER GRANT: What about the case of  
23 a wealthy Canadian renouncing his citizenship; going to  
24 the United States, applying for U.S. citizenship and  
25 returning to Canada with his securities then in the form  
26 of American stocks and bonds?

27 MR. SELMAN: He would be taxed on his world  
28 estate.

29 COMMISSIONER GRANT: There is that loophole.

30 MR. BARBEAU: We would have to have a procedure



E2 1 to plug that loophole.

2 THE CHAIRMAN: Don't you want to bring him  
3 back?

4 MR. BARBEAU: We would want to tax him.

5 MR. SELMAN: What we are trying to do is make  
6 Canada available to people incoming.

7 THE CHAIRMAN: I can see the reason and merit  
8 to the suggestion.

9 COMMISSIONER GRANT: I can see the reason.

10 COMMISSIONER PERRY: I would suggest you submit  
11 this proposal to the recommendation you have for giving  
12 careful public review.

13 MR. BARBEAU: We hope it will.

14 THE CHAIRMAN: Moving to federal sales tax ---

15 COMMISSIONER GRANT: Before leaving estate  
16 tax I notice you recommend that estate tax be imposed  
17 by one jurisdiction; in other words, you would like to  
18 see the provincial succession duties eliminated and  
19 only a federal tax enforced.

20 MR. ANDERSON: That is right.

21 MR. SELMAN: That is one way. You might take  
22 the Federal Government out of the field.

23 COMMISSIONER GRANT: Then you would have ten  
24 jurisdictions.

25 MR. SELMAN: I would venture to say, and I  
26 could back it up with some facts, you would be better  
27 off with ten jurisdictions, ten provincial estate taxa-  
28 tions, than you would with the present situation with  
29 the Federal Government and some of the provinces taxing.

30 COMMISSIONER GRANT: Administration-wise it



E3 1 would be very difficult, wouldn't it? At the present  
2 time you have to go through four jurisdictions.

3 MR. SELMAN: Right.

4 COMMISSIONER GRANT: That is burdensome enough.

5 MR. SELMAN: Right.

6 COMMISSIONER GRANT: To extend that to a total  
7 of eleven would only complicate administration.

8 MR. SELMAN: Possibly ten, drop out federal.

9 COMMISSIONER GRANT: Potentially ten.

10 MR. SELMAN: That would happen very rarely.

11 The present situation creates what appears to be irrepar-  
12 able conflict between the two jurisdictions taxing. I  
13 have in mind here looking at the administration of  
14 estate tax acts - the time on the part of governments on  
15 simply the Estate Tax Act and because this relies on  
16 common law rules and so forth it is causing so much  
17 trouble. This is a decision they have to make. It  
18 would cause a lot less cost to the taxpayer than the  
19 cost you now have. The provinces, through agreement  
20 with each other, never double-tax. In other words,  
21 the province's situs always has first lien on the tax.  
22 All the succession duty acts are based on the same  
23 principle.

24 COMMISSIONER GRANT: I find myself entirely  
25 in accord with you.

26 THE CHAIRMAN: Moving on to sales tax I think  
27 anyone who has looked at the Excise Tax Act would agree  
28 that it needs to be amplified a bit. Are you prepared  
29 to leave the matter with the recommendation that it should  
30 be levied pursuant to a detailed statute?



E4 1 MR. ANDERSON: That is our recommendation.

2 THE CHAIRMAN: You have nothing further to  
3 add to that?

4 COMMISSIONER WALLS: Just one question as  
5 to your principal reason for that recommendation: is  
6 it to get away from so much being left up to admini-  
7 strative decision?

8 MR. ANDERSON: Decisions and rulings, yes,  
9 particularly when rules are very difficult to obtain  
10 and often are obtained only after a period of two or  
11 three years.

12 THE CHAIRMAN: Many are not public.

13 MR. ANDERSON: Many are not public. I think  
14 if you know how to ask by name you can usually find  
15 them.

16 THE CHAIRMAN: Shall we take five minutes  
17 before we get to the questionnaire? Do you wish to  
18 add something?

19 MR. ANDERSON: No. I was going to speak to  
20 the questionnaire.

21 THE CHAIRMAN: I am a little concerned about  
22 time. I think we will carry straight on if you don't  
23 mind. Would you care, Mr. Anderson, to take us through  
24 the questionnaire?

25 MR. ANDERSON: I would be happy to do that,  
26 although again we have assigned particular areas of  
27 the questionnaire to specific members of the panel.  
28 As we come to that these people may speak to them. I  
29 think generally the theory and the policy of the question-  
30 naire is set out on pages 17 and 18. We feel this is a





E5 1 responsible questionnaire. It was addressed to 1,200  
2 members. We received some 48 positive replies in the  
3 form of completed questionnaires and another 6% who,  
4 for one reason or another, 'phoned comments in. Their  
5 results have not been tabulated but they did actually  
6 give the questionnaire some consideration.

7 Of the members that didn't reply some would  
8 be companies who didn't feel their company would fit  
9 into the picture, particularly. Our advisors were Ben  
10 Crow and Associates and they advised us that this was  
11 quite a response to this type of questionnaire.

12 THE CHAIRMAN: We are delighted, I might say,  
13 you undertook such a job.

14 MR. ANDERSON: Mr. Selman points out to me  
15 in addition to the actual replies we have received we  
16 have reason to believe this questionnaire was regarded  
17 seriously by our members, and in many instances it was  
18 referred to the Board of Directors for policy decisions  
19 before answers were put in. It wasn't something done  
20 by straight ticking off. We think it had very careful  
21 consideration.

22 The results have been tabulated and on the  
23 basis of these tabulations we had the feeling that a  
24 further breakdown of the results might in some cases  
25 provide areas which would be helpful in interpretation.  
26 I have filed with the Commission this morning and we  
27 have additional copies available a further breakdown of  
28 these results.

29 If I might just use Question No. 1 as an  
30 example: the question relating to double taxation. We



E6 1 found of the companies replying, a total of 581 companies  
2 replying, 36% of those who replied indicated that the  
3 company should not have to pay any tax on profits  
4 distributed as dividends. 32% of those replies felt  
5 that the present tax procedure with respect to this  
6 double taxation was satisfactory and 24% felt that the  
7 company should pay all of the taxes; in other words, the  
8 tax on dividends should be eliminated in the case of the  
9 individual.

10 What you learn from that I wouldn't attempt  
11 to interpret as far as you are concerned, but certainly  
12 it would appear there is no unanimity of thinking among  
13 businessmen as to the elimination of double taxation.  
14 In order to more clearly understand this particular  
15 question we broke down the answers by industry. This  
16 is the information which has been filed with the Secre-  
17 tary and will be provided in more copies. We ran into  
18 production problems.

19 We broke down the answers in the six major  
20 classes of industry, the same types of classes as appear  
21 at the top of the questionnaire, indicating the total  
22 sample of business interests that responded. With this  
23 breakdown we found across the board there has been no  
24 change by industry. In other words, whether the person  
25 was operating in the retail or wholesale field, consumer  
26 goods production field, industry, primary industry,  
27 heavy construction industry - by and large throughout  
28 the questionnaire we found by industry the feelings of  
29 people were about the same.

30 At the back of the questionnaire we have



E7 1 indicated the size of the companies from a profitability  
2 point of view indicating of all the replies that have  
3 come in to the questionnaire 15% were in the zero to  
4 \$10,000 bracket; 21% were in the \$10 to \$35 thousand  
5 bracket; 17% in the \$35,000 to \$100,000 bracket and  
6 24% in the over \$100,000 bracket, and various other  
7 percentages for loss or not liable for tax.

8 We have broken down the answers given again  
9 in this question with respect to the profitability of  
10 the company and we found in most instances even this  
11 distribution tends to bear out percentages indicated  
12 in the total samples. There may be one or two of the  
13 sections we will deal with specifically where there has  
14 been slight variation, but by and large throughout the  
15 questionnaire the distribution has never tended to  
16 indicate that the sample is probably sound. I would be  
17 prepared to answer any questions on Question No. 1.

18 THE CHAIRMAN: I think it is very clearly  
19 stated. I don't have any questions.

20 COMMISSIONER WALLS: Not only that, but we  
21 are going to get a complete breakdown.

22 MR. ANDERSON: The complete breakdown will  
23 only tend to confirm the conclusions you have here  
24 already.

25 Mr. Selman would like to comment on No. 2.

26 THE CHAIRMAN: Yes, Mr. Selman.

27 MR. SELMAN: The question suggests the larger  
28 companies accept a 10% decrease in their tax rate which,  
29 of course, would equally make up the decrease and pena-  
30 lize the smaller companies by the elimination of the



E8 1 \$35,000. One would expect that the companies with the  
2 income over \$100,000 would be in favour of such a sugges-  
3 tion. Only 50% actually are in favour. Forty-five  
4 per cent - a uniform rate would not be a desirable  
5 stimulus to them. The conclusion that one can draw  
6 from this, perhaps, is only that the people answering  
7 this looked at the thing in a very responsible fashion,  
8 not only from the point of view of their avarice.

9 THE CHAIRMAN: The small companies ---

10 MR. SELMAN: The small companies generally ---

11 THE CHAIRMAN: --- reacted against.

12 MR. SELMAN: Reacted against. By industry  
13 classification there isn't any substantial change. There  
14 isn't any particular industry which would seem to desire  
15 this thing over others.

16 THE CHAIRMAN: That is interesting, thank you.

17 MR. ANDERSON: Mr. Barbeau?

18 MR. BARBEAU: Again, the aim here was to try  
19 to get opinions of business communities as to the power  
20 of ultimate incidence of tax. I think the results  
21 speak for themselves. Perhaps a point of interest,  
22 looking at 3 - and I might say parenthetically, we put  
23 some of the questions in there - some of the choices  
24 were put there to sidetrack the correspondent. We  
25 didn't feel at any rate that they had application, but  
26 we put them there to see what type of response we would  
27 get. Perhaps the point of interest is between the  
28 raise in prices, smaller dividends and attempts to  
29 increase productivity of labour are more or less the  
30 same percentages and in agreement with some economical





E9 1 theories.

2 THE CHAIRMAN: Have you looked at trying to  
3 assess what the effect on shareholders would be - I  
4 suppose the first qualification absorbed the loss.  
5 The people replied accordingly. I suppose that the  
6 weight of such a change in taxes would be on the share-  
7 holders. Declaring smaller dividends would be in the  
8 same category.

9 MR. BARBEAU: This is one of the shortcomings  
10 with the question. This can be regarded as a short-term  
11 effect. They may absorb loss in the short term but not  
12 necessarily in the long term. The second one perturbed  
13 us a little more.

14 THE CHAIRMAN: You would question the validity  
15 of the second one, I would assume?

16 MR. BARBEAU: This incentive for greater  
17 efficiency.

18 THE CHAIRMAN: That is very interesting, of  
19 course. If increased taxes could create greater effi-  
20 ciency - that is something we hadn't reckoned on before.

21 MR. ANDERSON: We wouldn't wish to have that  
22 in the record as one of our conclusions.

23 MR. SELMAN: One might point out in the retail  
24 and wholesale group 45% as compared to 35% average felt  
25 they could effect savings in overhead.

26 MR. PARKINSON: The professional group is  
27 less interested in saving.

28 MR. ANDERSON: Question 4 on exports.

29 MR. BARBEAU: In that connection with exports,  
30 I don't think we have enough correspondents, and certainly



ElQ not enough in the export market to make this too meaning-  
2 ful, but I think it correlates itself with the question  
3 on tax shifting; in other words, the indication there  
4 would be they would absorb the increase.

5 MR. ANDERSON: The indication there is competi-  
6 tive factors take more than taxation.

7 THE CHAIRMAN: One wonders if they didn't raise  
8 the price of exports where the tax would be borne,  
9 possibly, I suppose by the shareholders.

10 MR. ANDERSON: We are speaking in terms of  
11 increases which are something normally that may be borne  
12 out of profits although no one desires to.

13 THE CHAIRMAN: Again, short-term.

14 MR. ANDERSON: Yes. Question No. 5; Mr.  
15 Barbeau again.

16 MR. BARBEAU: Again, this was to try to get  
17 the views of the business community with respect to  
18 reduction in corporate tax rates by a deficit of the  
19 national budget. Again, we find in this case the  
20 community, a high percentage felt convinced there  
21 shouldn't be a deficit beyond the present rate. Again,  
22 it was to get an opinion.

23 THE CHAIRMAN: It is interesting to know what the  
24 answers to the questionnaire would be by a similar  
25 group in the United States now where it has been under  
26 a great popular review.

27 MR. BARBEAU: I wouldn't be surprised if the  
28 same thing was the case; certainly all indications  
29 would point that way.

30 THE CHAIRMAN: They might do.



E11 1 MR. ANDERSON: We have rather extensive

2 questions on depreciation. Mr. Selman?

3 MR. SELMAN: This question, when we broke it

4 down by industries, the only category significantly

5 different from the total group is heavy and light

6 construction where 43% of those sampled - I will admit

7 it is a small group - claimed in their experience assets

8 actually depreciated more rapidly with the maximum rate.

9 54% of the group felt not.

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F/MR/dpw 1 The rest of it is concerned with that sample. In this  
2 question originally we asked the recipients to indicate  
3 to us what specific assets were troubling them and I  
4 have made a fairly short list of the ones which were  
5 mentioned: 116 companies specifically mentioned these.  
6 15 mentioned asphalt roadways and requested rates  
7 varying from  $7\frac{1}{2}$  to 50 percent. Five, or one-third of the group  
8 suggested that 20% rate contrasted with the present  
9 4% rate on asphalt roads. This is not the information  
10 which we have tabulated. If you want to tabulate it  
11 afterwards we can supply it.

12 Fourteen of the group mentioned office equip-  
13 ment and half of that number asked for a 30% rate  
14 contrasted with the present 20% rate. Thirteen mentioned  
15 construction equipment and six suggested 50% contrasted  
16 with 30.

17 Eleven mentioned autos and trucks, but I do  
18 not place too much strength on this because five of them  
19 asked for a 35% rate, which is only a slight increase  
20 from the present rate.

21 Eleven companies mentioned manufacturing  
22 equipment, of which five asked for 30% contrasted with  
23 the present 20, and there was smaller mention - a smaller  
24 number mentioned such things as electronic equipment  
25 and component parts of buildings, and so on.

26 I would point out that the rate increases  
27 that we asked for are all fairly conservative. They  
28 are not what I think are substantial and unrealistic  
29 rates and I think that, coupled with the results from  
30 questions B and C, indicate a concern that the tax





1 depreciation rates used be accurate and realistic.

2 THE CHAIRMAN: I did not hear the last part  
3 of that.

4 MR. SELMAN: I draw the conclusion from this,  
5 from the relatively conservative answers and recognized,  
6 together with question B and C, that the primary concern  
7 to the recipients was that depreciation rates be  
8 accurate rather than used as incentives, or so forth.

9 THE CHAIRMAN: Thank you; and the present  
10 system is a pretty good system?

11 MR. SELMAN: Very satisfactory right across  
12 the board and our suggestion of a system which would  
13 virtually give the taxpayer carte blanche in its depre-  
14 ciation rates, provided he was willing to book it in  
15 his account was rejected.

16 I was interested to see that in this one  
17 there is no substantial difference in the result between  
18 small companies and large companies. They all rejected  
19 it.

20 MR. ANDERSON: Write off business losses,  
21 Question No. 7?

22 THE CHAIRMAN: I think so. Just a minute  
23 until I turn this over slowly.

24 MR. ANDERSON: I am sorry.

25 THE CHAIRMAN: Yes, I think so.

26 MR. PARKINSON: The present limitation on the  
27 carry-over of losses for five years is open to argument  
28 that it is not particularly a logical limitation. In  
29 practice it has been the experience of members of the  
30 Research Committee that businesses do actually run out



F3 1 of time in absorbing the losses, so we felt it would be  
2 a very desirable question to put in here to see actually  
3 the effect on businesses in general, and the results  
4 which are shown here speak for themselves.

5 I think that the five-year limitation  
6 apparently has not been a particularly hampering provi-  
7 sion to businesses in general. While a detailed break-  
8 down again does not indicate any substantial variation  
9 from the total sample, although it is perhaps of some  
10 significance that 12 large businesses in the over-\$100,000  
11 - 12%, which is about 14, 14 to 15 businesses, did run  
12 out of time in offsetting losses.

13 The next question is really a follow-through  
14 on Question 7.

15 THE CHAIRMAN: Before you move on to it, I  
16 would like to question your conclusion under business  
17 losses. It may well be that those 79% did not have  
18 losses whatsoever, and if one took a proportion of those  
19 which had incurred losses since 1950, and related those  
20 that had run out of losses to the total, one would get  
21 a very different result: am I not correct?

22 MR. PARKINSON: That is so, but I think it  
23 is still a valid conclusion as distinct from percentages.  
24 It would appear, just taking the one column, businesses  
25 over \$100,000, it would appear out of 109 recipients in  
26 that category only 14 or 15 actually found themselves  
27 in that position so that whilst other businessmen have  
28 had, or may not have incurred losses, nevertheless the  
29 provision per se has not given any real trouble.

30 THE CHAIRMAN: Thank you.



F4 1 MR. PARKINSON: The next question is, as I  
2 said, really just a corollary of Question 7, and in a  
3 way, almost an unnecessary one, if the validity of the  
4 conclusion that I just reached is agreed upon. We felt  
5 that if the answer to Question 7 did indicate that many  
6 people were running out of time, possibly they would  
7 prefer to have the opportunity of filing a consolidated  
8 return, if they had more than one corporate entity in  
9 their group.

10 In addition to that aspect, of them running  
11 out of time aspect, there is the other position which  
12 groups of companies found themselves in fairly frequently,  
13 and that is that in a group, some corporations may make  
14 losses, and some make profits, so that temporarily, at  
15 any rate, they are perhaps paying taxes in advance of  
16 what they would do if they could file a consolidated  
17 return.

18 The consolidated return is permitted in the  
19 United States, combined with a penalty, an extra tax,  
20 and we really modelled our question on the United  
21 States situation. Seemingly, the Vancouver business  
22 community is not particularly interested in having an  
23 opportunity to file consolidated returns. This part of  
24 the tabulation is somewhat confusing.

25 We haven't, I don't think, resolved in our  
26 own minds what parts of it mean, but the no-answer  
27 category is extremely high. We do not fully understand  
28 why that should be, and also there is a column headed  
29 "Single corporate entity in Canada" which was intended  
30 to cast them out from this particular part of the



F5 1 questionnaire. They answered even though they were a  
2 single corporate entity, that they would have been  
3 better off had they been able to file consolidated  
4 returns. They may have misunderstood the question.  
5 They possibly were speaking of foreign subsidiaries.  
6 I don't know.

7 THE CHAIRMAN: I would think, though, that  
8 it is amazing, the figure of 37% in the second column  
9 who have indicated that they have paid more taxes than  
10 they would have paid if they had filed a consolidated  
11 return. I am very surprised.

12 MR. PARKINSON: But, nevertheless, given the  
13 opportunity to do something about it, they dropped to  
14 21%.

15 MR. BARBEAU: When we bring in the 2% increase  
16 in taxes.

17 MR. PARKINSON: So that that 37% who apparently  
18 find themselves hampered, they are not prepared to pay  
19 the 2% extra tax for the privilege of filing a consoli-  
20 dated return.

21 THE CHAIRMAN: It is curious, isn't it?

22 MR. PARKINSON: Yes.

23 THE CHAIRMAN: They must have been very slightly  
24 hampered?

25 MR. PARKINSON: Yes, presumably.

26 THE CHAIRMAN: Mind you, that percentage whose  
27 expansion plans were hampered is very low.

28 MR. PARKINSON: Yes.

29 THE CHAIRMAN: It indicates, according to  
30 column 2, that 45% of those suffered in regard to their





F6 1 expansion plans by virtue of no consolidated return.

2 COMMISSIONER PERRY: They must have had very  
3 limited expansion plans.

4 MR. SELMAN: There is something interesting  
5 in this respect: we broke this part of the questionnaire  
6 down into the size of the business category. Thirty-  
7 nine percent of the businesses under \$35,000 were not  
8 hampered. Thirty-three percent of the businesses over  
9 \$100,000 were not hampered, but 64% of the businesses  
10 in the \$35,000 to \$100,000 range claimed to be hampered.

11 In other words, small businesses and large  
12 businesses seemed to feel less effect than the business  
13 in the middle. My own personal reaction to this is that  
14 this has indicated that the business that is financed  
15 mostly out of earnings is hurt.

16 THE CHAIRMAN: You say "is hurt"?

17 MR. SELMAN: Is hurt, more so than businesses  
18 which are financed by borrowing through the I.D.B.

19 THE CHAIRMAN: I am very surprised at this  
20 because I thought that most corporate taxpayers had now  
21 found ways of accomplishing the same result as would  
22 have been achieved by consolidated returns.

23 This would tell me that this is not so, and that  
24 in fact people are paying more taxes and that there is  
25 really a need for consolidated returns in Canada. I  
26 have wondered about this; wondered whether the right  
27 to determine income would not be by way of consolidated  
28 returns. This certainly goes to support that view.

29 MR. PARKINSON: And yet even in that category,  
30 as Mr. Selman mentions, 64% of the sample, it is actually



F7 1 a small sample unfortunately - but 64% say that they were  
2 hampered but the figure drops to 18% when they are given  
3 the opportunity to file a consolidated return with a  
4 penalty tax. We felt that it was essential to put in  
5 that idea of a penalty because obviously if you say,  
6 "Would you file?" the answer is, "Yes," a hundred per-  
7 cent.

8 THE CHAIRMAN: If you get anything further  
9 on this, I would like to have it because I think you  
10 simply leave us very puzzled indeed at the moment.  
11 There may be nothing more you can do.

12 MR. ANDERSON: We have one suggestion that  
13 we would like to make to you: the results of this  
14 questionnaire have been tabulated in order to produce  
15 the information which we have, and which we have filed  
16 today. I imagine any given set of statistics can be  
17 put through a machine to produce almost any given infor-  
18 mation and we will be happy to make available to the  
19 Commission either the questionnaire or the cards from  
20 which this information has been tabulated and if your  
21 research staff could learn something from that, that  
22 would be helpful, we would be certainly glad to make  
23 these available to you. Again, I would not ask you for  
24 an immediate decision. If you do wish them, we certainly  
25 would be happy to co-operate.

26 THE CHAIRMAN: Thank you very much, indeed.

27 MR. ANDERSON: There may be other types of  
28 information, or other classifications that would occur  
29 to you as being more important than would have occurred  
30 to us.



F8 1 THE CHAIRMAN: We are, of course, conducting  
2 our own surveys, but it may well be that this would  
3 complement what we are doing.

4 MR. ANDERSON: Question 9, I think about all  
5 that we learned from that was that business regarded  
6 regulation 1109 as something which was of really no  
7 permanent benefit or value. Only 7% felt that this  
8 had any direct bearing in their acquiring assets that  
9 they would have had under ordinary circumstances.

10 THE CHAIRMAN: Thank you.

11 MR. ANDERSON: A very small percentage also  
12 felt that this type of regulation would be of no assis-  
13 tance to them in going forward.

14 THE CHAIRMAN: Thank you. That does not  
15 surprise us.

16 MR. ANDERSON: Turning to 9c, Mr. Selman  
17 points out that 53% have indicated that no particular  
18 rate of accelerated depreciation would change their  
19 normal plans, and only an accumulative 14% indicated  
20 that if they could set their own rate, they would make  
21 their plans in accordance with this particular rate.

22 It would appear that if you could use the  
23 term "gimmick" this is a gimmick which was not parti-  
24 cularly well received by the business community.

25 THE CHAIRMAN: These are very honest replies  
26 that you have given.

27 MR. ANDERSON: We believe we have had respon-  
28 sible replies to the questions.

29 COMMISSIONER GRANT: Would it be a logical  
30 conclusion that they are satisfied with the depreciation



F9 1 schedule as it now exists?

2 MR. ANDERSON: I think this is borne out by  
3 the replies to the depreciation question as well.

4 MR. PARKINSON: And there is an astonishing  
5 unanimity in the further breakdown on this last question.

6 MR. ANDERSON: Under production incentive,  
7 Question No. 10, it would appear that only a limited  
8 number of those who have replied were particularly  
9 interested, or particularly assisted by the production  
10 incentive.

11 Seventy-seven percent who are engaged in  
12 manufacturing, processing, experienced no benefit what-  
13 soever from the production incentive.

14 THE CHAIRMAN: It is very helpful to have that  
15 answer, indeed.

16 MR. ANDERSON: No. 11?

17 MR. BARBEAU: I think the main purpose of  
18 this question, and one which we have been rather  
19 interested in its result, was generated by a feeling  
20 that by way of incentive the businessman in British  
21 Columbia is much more concerned about minimizing business  
22 losses than to receive greater profits.

23 In other words, the real problem here in  
24 British Columbia seemed the fear of losing capital in  
25 starting off a new enterprise. Accordingly, we pro-  
26 pounded this question whereby an investor in a new  
27 enterprise would be allowed to deduct or to recover  
28 capital losses incurred in starting off a new enterprise.

29 The results, I think, are quite strong here  
30 and quite marked to the effect that they would favour





F10 1 such an incentive directed to the losses, rather than  
2 to an increase in profits. There were 73% in favour  
3 of it. However, to perhaps bring in a note of practi-  
4 cality into the situation we also brought the (b) part  
5 in to the effect that this may require governmental  
6 approval and there the answers "Yes" come down slightly.  
7 Nevertheless, they are still substantially in favour of  
8 this incentive to allow a recovery of capital losses  
9 incurred in new enterprises in British Columbia.

10 THE CHAIRMAN: This is the exact question  
11 you put to these people, I assume?

12 MR. ANDERSON: Yes.

13 THE CHAIRMAN: Because I have a little trouble  
14 with the word "recoup" without anything further as to  
15 where this might be recouped.

16 MR. BARBEAU: Well, the problem was, Mr.  
17 Chairman, again this would require a lot of research.  
18 There were a number of ways. For example, they could  
19 deduct the capital losses over a period of five years  
20 which would mean, if they are in the 50% tax rate, they  
21 would recover half, but you could also recover or recoup  
22 more than that. All we wanted to intimate to them is  
23 that they could recoup part of it back. The exact  
24 method, we did not feel was necessary to get their  
25 conclusion on.

26 THE CHAIRMAN: Thank you.

27 COMMISSIONER GRANT: This would have particular  
28 application, would it not, to an individual rather than  
29 a company?

30 MR. BARBEAU: Yes.



G/PB/dpm

MR. ANDERSON: While this question was directed

to companies we have the feeling possibly when this section was answered, the individual who was marking with the pencil was thinking possibly partly in terms of himself and partly in terms of his organization.

MR. BARBEAU: It applies to both.

COMMISSIONER PERRY: It is in accordance with the submission we received from a participant yesterday.

MR. SELMAN: One might note in passing that the breakdown indicated the bigger companies are the companies that didn't want government regulations. The smaller companies accept them quite readily.

THE CHAIRMAN: I suppose that is quite acceptable.

MR. ANDERSON: Capital gains.

MR. BARBEAU: Capital gains, the results are clear, very high percentage, 70% against capital gains tax. We fully recognize the whole issues weren't defined, and perhaps some people weren't aware of the problems involved, the definitional problem. The losses speak for themselves.

THE CHAIRMAN: I think it does; thank you.

MR. ANDERSON: Question 13, Mr. Parkinson?

MR. PARKINSON: In putting Question 13 to an extent we anticipated the answers to the question concerning incentive depreciation; regulation 1109 - we anticipated that the answers to this would be indicative that 1109 wasn't effective. In a climate of monopolies of the Tax Act in order to provide the progressive economy and so forth we felt something like this should



G2 1 be put in and the question is based on the Swedish system.  
2 The results - some are difficult to interpret - split  
3 down the middle; it suggests that 43% would be interested  
4 in this type of thing or a fairly big sample of the  
5 business community. In the more detailed breakdown it  
6 was interesting to note that the industrial production  
7 and primary industry, 60% expressed interest as distinct  
8 from the average overall 43%.

9 THE CHAIRMAN: I would imagine any such  
10 reserve as this would have to be conditioned by govern-  
11 ment regulation.

12 MR. BARBEAU: We would imagine so. The per-  
13 centage of respondents still expressing interest in  
14 this scheme under government supervision dropped, of  
15 course, but not tremendously.

16 THE CHAIRMAN: The balance describes who the  
17 respondents were?

18 MR. BARBEAU: Yes.

19 MR. ANDERSON: And the actual form of the  
20 questionnaire we sent out is appended as further infor-  
21 mation.

22 THE CHAIRMAN: This is most interesting to us.  
23 This is the first report of a questionnaire that we  
24 have received, as you probably know. The Canadian  
25 Chamber has got some questionnaire going around, and may-  
26 be one or two others, I don't know, but we have, of  
27 course, ourselves wondered very often what the general  
28 views of incentives were, and other things also. I  
29 must say this is an imaginative and good approach to it  
30 and of great interest to us. I don't think we have any



G3 1 further questions.

2 We thank you most sincerely, gentlemen, for  
3 your attendance this morning. It was a great help to  
4 us. We appreciate the help because this is a very broad  
5 area and we are looking to people like yourselves across  
6 Canada to set forth your views, which you have done. I  
7 might say we are delighted to be in Vancouver and enjoy  
8 the beauties of the city which we indulge in within the  
9 limits of time and opportunity accorded to us. It is  
10 nice to be here. Thank you very much.

11 MR. ANDERSON: It has been our pleasure to  
12 present this to you and we wish you well in your future  
13 deliberations.

14 THE CHAIRMAN: We will break off for three  
15 minutes.

16

17 --- Short Recess

18

19 THE CHAIRMAN: This is Mr. Guenther.

20 THE SECRETARY: The next submission is from  
21 Mr. D.N. Guenther. Mr. Guenther is present here this  
22 morning to speak to his brief. I will enter this brief  
23 into the record as Exhibit 139.

24

25 --- EXHIBIT NO. 139: Submission of Mr. D.N. Guenther.

26

27 SUBMISSION OF MR D.N. GUENTHER

28 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
29 morning, Mr. Guenther.

30

MR. GUENTHER: Glad to see you, sir.





G4

1 THE CHAIRMAN: Thank you. Glad to see you.

2 What draws you to taxation, particularly? Do you earn  
3 your living in this area? I don't think you do.

4 MR. GUENTHER: I haven't been able to.

5 THE CHAIRMAN: Are you an economist?

6 MR. GUENTHER: I beg your pardon?

7 THE CHAIRMAN: What is your occupation, sir?

8 MR. GUENTHER: Carpenter.

9 THE CHAIRMAN: Why have you made a study of  
10 taxation? We all have to make a study of tax returns  
11 but we all don't go deeply into taxation.

12 MR. GUENTHER: Because I have been abused by  
13 taxation and because of the results of this taxation.  
14 As you will see, paragraph 3 - "How is an individual  
15 tradesman to maintain a living under present circum-  
16 stances and taxations?"

17 THE CHAIRMAN: You consider we are over-taxed?

18 MR. GUENTHER: Not only over-taxed; abused. You  
19 will see now. He pays income tax on the money earned  
20 in wages where he cannot afford to pay the rent nor  
21 afford to have a house built by the contractor due to  
22 unemployment. This individual is circumstantially  
23 compelled to build a house for himself to make his time  
24 worthwhile. In order to do this, he has to pay the full  
25 price for the lot, plus sales tax and property tax, buy  
26 all the building material at cost price, plus sales tax  
27 and improvement tax, yet he is not exempted from the  
28 income tax for the expenditure. How is an individual  
29 to compete and remain alive where the monopolists are  
30 making their profits in business tax free? How does



G5 1 the Commission account for such procedures?

2 THE CHAIRMAN: We don't account for it at all.  
3 We are asking you to tell us how to fix the system. You  
4 are giving us your views and we are very grateful to  
5 you for doing so. It will be our job eventually to  
6 make recommendations towards the improvement in tax  
7 laws in Canada which I hope may overcome to some degree  
8 the difficulties to which you refer.

9 MR. GUENTHER: Gentlemen of the Royal Commission,  
10 Tax Commission, are you aware of how many foreclosures  
11 have been made by this in the last 10 or 12 years, how  
12 much in sales tax has been received by the Commissions  
13 and the Hydro authorities on gas and electricity that  
14 is sold alone by Hydro to the Government --- --- all  
15 the generators and land that is bought and when the  
16 people have paid threefold for the electricity and we  
17 can't afford electricity, to pay the bills of electricity  
18 or gas, nor can we afford to pay our grocery bills.  
19 Our taxes have been almost doubled yearly since 1956.

20 For example, my brother and I were buying a  
21 lot in Burnaby for a price of \$2,000. We borrowed it  
22 at 7 $\frac{1}{2}$ % to make a livelihood in the year 1958. Burnaby  
23 Corporation refused to issue a permit to build on the  
24 ground saying no adequate drainage, which is not the  
25 case, as you will see in this letter.

26 I have a letter here, a letter from a septic  
27 tank expert in the last 20 years in Burnaby - he  
28 examined my lot and gave me an estimate to construct  
29 a septic tank with a 20-year guarantee. You will  
30 realize corporations are entirely vicious. Their main



1 aim is to break us in order to obtain the property for  
2 taxes that we can't pay, which I call obtaining the  
3 property on false pretences, by not granting a building  
4 permit - raising taxes.

5 My brother had to go across the line ---

6 Example 2. . . .

7 THE CHAIRMAN: You don't need to read your  
8 submission to us. We have already read it. We are very  
9 grateful to you for having put it before us. We have  
10 had an opportunity to read it. I can understand it.  
11 I don't need to ask any questions. Have you any ques-  
12 tions, Commissioners?

13 MR. GUENTHER: Yes, indeed I have. Within  
14 the scope of circumference --- unnecessary hardships,  
15 sir, if the Commission has courtesy and privilege -  
16 the impossibilities we face and there are examples in  
17 the Vancouver administration.

18 Gentlemen of the Royal Commission solemnly I  
19 say they are imposed undemocratically and dictatorially  
20 to destroy the helpless individual by --- what they  
21 call dispersement. The fact of that happened. I there-  
22 fore move a different range of circumference be  
23 adopted in a realistic way not provided by unnecessary  
24 hardship in present taxation, that an authoritative  
25 source be established and a person hired by the Royal  
26 Commission to see that individual citizens get their  
27 full share of living rights to live wherever he wished  
28 to go and to investigate on request of taxpaying resi-  
29 dents ---

30 The municipalities have the courts who are



67 1 in the interests of their own protection on the taxes -  
2 at the taxpayers' expenses. As you know these indirect  
3 criminals have to make a living off the helpless indivi-  
4 dual. This is wrong - unnecessary hardship ---

5 As you will see in my case, I have been  
6 compelled into the situation where administration in  
7 the last six years, paying taxes with nothing in return  
8 - invested \$2,000 a 7% - that is taxes - not being able  
9 to make payments on the principal. Then what do you  
10 call this corporation ---

11 THE CHAIRMAN: Thank you very much.

12 MR. GUENTHER: I have all the evidence if the  
13 Royal Commission is interested in seeing this and they  
14 are welcome.

15 THE CHAIRMAN: We may well be, and if we do  
16 we will be in touch with you.

17 MR. GUENTHER: May I leave it with you?

18 THE CHAIRMAN: I don't think you need to do  
19 that. After our staff have a chance to look at it they  
20 know where to find you and we will be in communication  
21 with you. Goodbye.

22 Yes, Mr. Secretary?

23 THE SECRETARY: The next brief is being presented  
24 by Dr. E.F. Weir of New Westminster. Dr. Weir is here  
25 and he will speak to his brief which I now enter into  
26 the record as Exhibit 140.

27  
28 --- EXHIBIT NO. 140: Submission of Dr. E.F. Weir.  
29  
30





G8 1 SUBMISSION OF DR. E.F. WEIR

2 THE CHAIRMAN: Good morning, Dr. Weir. I was  
3 going to apologize to you for being a little late but I  
4 am not sure we are.

5 THE SECRETARY: Yes, we are.

6 THE CHAIRMAN: I am sorry about that. I hope  
7 we can deal with this this morning. If we can't and if  
8 you are free we can see you for a short time this after-  
9 noon. You put some most interesting information before  
10 us. We have all enjoyed reading your submission. I  
11 must say I am curious as to how a medical doctor  
12 specializing in internal medicine is also an expert in  
13 economics.

14 DR. WEIR: I am not an expert, sir. I made  
15 a study of it.

16 THE CHAIRMAN: You have even written a book,  
17 I understand.

18 DR. WEIR: Yes, sir.

19 THE CHAIRMAN: It is a hobby, I suppose?

20 DR. WEIR: Well, I feel as strongly about  
21 seeing wrong tax medicine administered to the public  
22 as I would about wrong medicine administered to the  
23 patient. I see that being done. I just feel that I  
24 have to speak up against it.

25 If I may tell you a short story to explain  
26 why I am here and why I think you people are here.  
27 In 1958 I wrote a book, "Are Taxes Necessary?" in which  
28 I drew up principles for reform. The main principle  
29 of that being to place higher taxes on consumer spending  
30 and lower taxes on everything else and as an adjunct to



1 that also to lower interest rates, at least at such  
2 times as there was widespread unemployment. I sent  
3 copies of the book to the Prime Minister, Mr. Diefenbaker,  
4 and leaders of the other parties and they wrote back and  
5 thanked me. Then, as you know, things progressed  
6 quite quietly that year. The budget of 1959 did  
7 nothing to improve the economic conditions in Canada.  
8 The opposition party said, to borrow a phrase, the  
9 "do nothing budget." In those years I had several, a  
10 number of exchanges with Mr. Fleming, the Finance  
11 Minister. I call them exchanges because although he  
12 always wrote me very courteously he always disagreed  
13 most heartily with my recommendations.

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H/TR/dpw

In April of 1960, for example, at a meeting

of the Canadian Club of Toronto he said that he had been badgered by a number of people to have the Canadian dollar devalued. He listed five ways in which this could be done. Then he quoted: "These are five courses that are open to the Government. Notwithstanding long personal study of the problem, I know of no others." So I wrote to Mr. Fleming and told him that if interest rates in Canada were lowered, the Canadian dollar would very promptly reach a lower level. He thanked me for my suggestions. Again, nothing happened.

I wrote him again and he replied. I think this is a very interesting reply in the light of what subsequently happened. He said:

"I am sorry that we disagree as to the proper financing policy to be followed now. I cannot share your gloomy outlook on Canada's prospects."

Now, that was at a time when the consumer price index had hit an all-time high; when the gross national product, in spite of that, was dropping; when unemployment was at its highest level since the Depression years; when the unemployment insurance fund was almost bankrupt; when our industries were being sold out to foreigners at an unprecedented rate, but he did not share my gloomy outlook on Canada's prospects.

"...nor can I subscribe to your view that the Government should spend more and increase the supply of money. The Government, as such, has no power to increase



M2

1 the supply of money even if it were a  
2 sound policy under present circumstances  
3 to do so."

4 Then I wrote to Mr. Diefenbaker and I told  
5 him that Mr. Fleming was following a restrictionist  
6 policy and that if they did not reverse that policy very  
7 soon the Conservative Party would cease to be a political  
8 force in Canada. Mr. Diefenbaker's secretary answered  
9 me:

10 "Mr. Diefenbaker appreciated your interest  
11 and welcomed your views on the economic  
12 situation and the remedies which you fore-  
13 see would correct them. While there  
14 cannot be a detailed discussion of your  
15 proposals, you can be assured that they  
16 were noted and that the present govern-  
17 ment, in determining legislation is not  
18 unmindful of the suggestions we have  
19 from persons like yourself who have made  
20 a special study of the problem with a  
21 view to discovering the best possible  
22 solution."

23 I felt that my letter had hit the mark but I  
24 couldn't be sure. I looked around for other allies.  
25 Mr. Coyne, who was then the governor of the Bank of  
26 Canada, was a man who did share my gloom regarding  
27 Canadian economic outlook and I made the same recommenda-  
28 tions to him, that we put our taxes primarily on consumer  
29 spending and lower other taxes, even if it meant a  
30 slight increase in the national debt and also that we





H3 1 should lower interest rates.

2 Mr. Coyne in December, 1960, said:

3 "I must, however, ask you to excuse me  
4 from commenting on specific proposals,  
5 particularly those relating to taxation  
6 matters."

7 Now, that was very sound advice on his part,  
8 but he did not follow it and two weeks later he made a  
9 speech in St. Johns where he did come out with his own  
10 tax proposals which were exactly the opposite of those  
11 which I had recommended; namely, he would increase the  
12 rate of interest in Canada. He would increase taxes  
13 and particularly the tariff on imports.

14 Well, we all admire his courage, but I must  
15 say that I disagree with his proposals and everybody  
16 else did, and as a result, he became - well, very shortly  
17 after when things started to pop, Mr. Coyne had to go.  
18 I don't know what went on behind the scenes, but very  
19 shortly afterwards there was some startling things  
20 happening, as you know.

21 Mr. Fleming brought in what he called an  
22 expansionist budget and accused Mr. Coyne of being a  
23 restrictionist and it was very interesting that the  
24 budget brought in the next year followed very closely  
25 the recommendations that I had made and whereas the  
26 Conservatives had been following a swift downhill course  
27 before, nobody expected the Conservatives to have a  
28 chance at re-election. When they did lower the value  
29 of the Canadian dollar, lowered taxes to bring in a  
30 deficit budget, as you know, the economy made an abrupt



14 1 improvement and the Conservatives were re-elected  
2 although by a narrow majority.

3 The people, I think, would have voted them in  
4 with a still greater majority except that they expected  
5 the Conservatives to reverse their stand once they were  
6 elected.

7 I wrote to Mr. Diefenbaker congratulating him  
8 on the devaluation of the dollar. I thought that they  
9 had done a remarkable piece of work but unfortunately  
10 - had my letter reached him a week earlier, it might  
11 have had some effect but unfortunately it reached him  
12 one day after the austerity program was announced, and  
13 we were all aghast at the claims proposed in the austerity  
14 program, so much so that the Conservatives lost power.  
15 The Liberal Government came in and that brings us down  
16 to the Gordon budget which I will not say anything on  
17 now, although I did write to Mr. Pearson quite pointedly  
18 on that budget, and it is interesting to me, when I  
19 wrote in 1958 I pointed out there that Mr. Gordon did  
20 not seem to understand some of the basic principles of  
21 economics. Little did I dream at that time that he would  
22 some day be our Finance Minister.

23 I am sorry to be so long-winded but I have  
24 read several predictions that your Commission will come  
25 to nothing; that it will very quietly be pigeon-holed  
26 and I would feel very sorry if that happened because  
27 our leaders very much need your direction.

28 I recognize all of you as being much more  
29 expert than I am on the details, but I feel that my job  
30 is to tell the individuals who were to help direct the



H5 1 Government, tell them that I feel that higher taxes on  
2 consumer spending, lower taxes otherwise, and lower  
3 interest rates, at least while we have people unemployed,  
4 should be put into effect.

5 THE CHAIRMAN: Thank you. You have put forward  
6 your proposition I think very clearly here. I personally  
7 do not think I have any questions.

8 COMMISSIONER WALLS: On page 2, where you  
9 state: "This amendment should be extended so that the  
10 taxpayer could deduct from his taxable income whatever  
11 he invested in government bonds, investment funds,  
12 corporation bonds, stocks, life insurance, or even bank  
13 deposits" - now, if a man has been putting money into  
14 any one of those throughout his life, and comes time for  
15 retirement, and he withdraws all for the purpose of  
16 purchasing an annuity, do you, under your plan,  
17 foresee him having to pay taxes on the entire withdrawal  
18 then, in line with the rest of your program, or would the fact  
19 that he re-purchased an annuity obviate that and  
20 he would then be taxed on a separate quota that he might  
21 draw as a pension each year thereafter; is that the way  
22 you visualize it?

23 DR. WEIR: As long as he does not withdraw  
24 his money faster than the quota allows, he would pay no  
25 taxes on it.

26 COMMISSIONER WALLS: But he would withdraw it  
27 once, as a lump sum first, and then he would re-invest  
28 in a single payment annuity.

29 DR. WEIR: If he would withdraw in a single  
30 year, yes.



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1 COMMISSIONER WALLS: And then he would only be  
2 taxed if that annuity was surplus to the consumption  
3 quota that you set?

4 DR. WEIR: Yes.

5 COMMISSIONER WALLS: I am little concerned  
6 about your desire to curtail spending and for Canadian  
7 manufacturers to ship as much as they can abroad,  
8 because would we not be forced by the countries that  
9 we are shipping to, to draw back consumable goods into  
10 Canada in order to obtain a reasonable balance of trade?

11 DR. WEIR: I think they would have to follow  
12 the Canadian lead, or else they can protect themselves,  
13 of course, by setting up quotas against us, but it would  
14 be a very unusual circumstance when the other countries  
15 in the world start setting up against Canadian goods  
16 instead of the other way around.

17 COMMISSIONER WALLS: Have we not been very  
18 fortunate in Canada in our balance of trade?

19 DR. WEIR: Very.

20 COMMISSIONER WALLS: There is some question  
21 whether we can continue as equitable, or non-equitable  
22 a balance of trade. It will mean that we will have to  
23 take back goods that you are now going to make it prac-  
24 tically impossible for us to buy with your 50, 60 and  
25 70 percent tax.

26 DR. WEIR: Yes, unless other governments, when  
27 they start to holler, they can always be invited to put  
28 the same kind of a benefit on their own economy.

2 29 THE CHAIRMAN: You would proceed to cut back  
30 on spending, as suggested here, very substantially at





H7 1 times?

2 DR. WEIR: Could be. It is quite flexible.  
3 The Government can decide how much consumer spending  
4 they want during a particular year and by setting a  
5 quota, they can see that that much is spent. No more.

6 THE CHAIRMAN: Would you not be apprehensive  
7 that if the 1961 expenditure on consumer goods of 28  
8 billion were cut back, as you mention, to a lesser  
9 amount there might be a substantial depression?..

10 DR. WEIR: Well, certainly we would reduce a  
11 lot of our imports, a lot of our consumer spending would  
12 be cut down but I have given an extreme example. One  
13 can equally well adjust the quota and the rate of taxation,  
14 according to the national need. In other words,  
15 it gives the Government a tool with which they can at  
16 any moment say, "Well, we are going to have more consumer  
17 spending or less consumer spending."

18 COMMISSIONER PERRY: Dr. Weir, just what are your  
19 mechanics? Do you visualize that there would be a  
20 personal income tax and a consumer spending tax?

21 DR. WEIR: I would change the personal income  
22 tax as it now stands to a consumer spending tax.

23 COMMISSIONER PERRY: This is what I was  
24 wondering about. You slid rather gradually from personal  
25 income tax into this new kind of tax. I wondered whether  
26 you were leaving the personal income tax substantially  
27 unchanged, except for the treatment of savings, and then  
28 adding to it the consumption tax?

29 DR. WEIR: Yes.

30 COMMISSIONER PERRY: Or whether one becomes



HS 1 the other and we just have one tax in the future.

2 DR. WEIR: What any of us get as income is  
3 divided into two ways: that what we spend for our own  
4 consumption and that what we invest.

5 If we spend less for our own consumption, we  
6 automatically have more for investment. We might put  
7 it in our sock at the foot of the bed, but we don't do  
8 that.

9 COMMISSIONER PERRY: You could visualize a  
10 system in which there were two separate taxes, one on  
11 income and the other on outgo?

12 DR. WEIR: Yes.

13 COMMISSIONER PERRY: What I am still not clear  
14 about is whether that is what you had in mind.

15 DR. WEIR: Changing the personal income tax  
16 to a consumer spending tax while excepting the part  
17 which is invested.

18 COMMISSIONER PERRY: This is where I lose you.  
19 This doesn't do anything for expenditure. This doesn't  
20 give you 50% rates on the expenditure above certain  
21 levels.

22 DR. WEIR: All right, sir, I will try to answer  
23 your question if I can.

24 COMMISSIONER PERRY: Here you have got your  
25 income tax as it is today?

26 DR. WEIR: Yes, sir.

27 COMMISSIONER PERRY: With graduated rates,  
28 starting at 11% as they are now. Now, do you scrap all  
29 that?

30 DR. WEIR: No.



H9 1 COMMISSIONER PERRY: You keep that?

2 DR. WEIR: Yes. I start with this amendment -  
3 the amendment itself looks very innocuous.

4 COMMISSIONER PERRY: There is more involved  
5 in this than in many briefs that we have had. We agree  
6 with that.

7 DR. WEIR: It looks like a very innocuous  
8 amendment but once you have that amendment there, and  
9 you start increasing the rate of income tax, the personal  
10 income tax people start suddenly saying, "Well, look  
11 here I am going to have to pay a hefty tax unless I  
12 put some money into investments," and they are going  
13 to start looking around for some good investment for  
14 their money which they could have deducted from their  
15 personal income, so that they will not have to pay  
16 income tax on it.

17 What they don't invest they will presumably  
18 be spending for their own consumption.

19 COMMISSIONER PERRY: And that would be subject  
20 to this other kind of tax that you outline on page 3?

21 DR. WEIR: Yes, sir. I propose first that  
22 the amendment should be made, and once the amendment  
23 is made the income tax suddenly becomes a useful tax  
24 instead of a harmful tax.

25 COMMISSIONER PERRY: It becomes a powerful  
26 weapon for inducing savings; that's for sure. It  
27 doesn't do anything to consumption. When I read you  
28 further, you speak of a consumption tax, but I am still not  
29 clear as to whether this is what you have in mind.

30 DR. WEIR: Is everybody else confused with



H10 1 that point also?

2 THE CHAIRMAN: I think I understand your  
3 proposal, but my understanding was that the present  
4 scheme of income taxation is completely altered to a  
5 consumption tax, and the consumption tax looks something  
6 like the income tax except that you have increased the  
7 exemptions and you have increased the rates very substan-  
8 tially?

9 DR. WEIR: Yes.

10 THE CHAIRMAN: So that the income tax in fact  
11 falls on spending?

12 DR. WEIR: Thank you, sir.

13 THE CHAIRMAN: I would think though that the  
14 same result might have been achieved by using something  
15 like our present consumption taxes and if one wants to  
16 discourage spending, to raise consumption taxes to  
17 where prices get very high.

18 DR. WEIR: Do you mean sales tax, sir?

19 THE CHAIRMAN: Yes. Excise taxes.

20 DR. WEIR: I make a difference in my brief  
21 between sales taxes which fall on one particular item  
22 rather than on all spending. For example, I feel that  
23 any man can go out and buy one refrigerator in a year  
24 tax-free, whereas, he buys 12 refrigerators he is going  
25 to exceed his quota and then going to have to pay the  
26 tax.

27 Similarly, if he has two or three luxury  
28 homes, going to have to pay a high tax, whereas the  
29 man who has a modest home will be able to avoid taxes  
30 by putting his income into savings instead.





H11 1 THE CHAIRMAN: I was rather impressed with  
2 that concept of what a luxury tax is. I think many  
3 Canadians might feel that government was entering too  
4 much into their personal lives.

5 DR. WEIR: At least this wouldn't tell a person  
6 what he could buy, like a sales tax does. A sales tax  
7 says, you can't buy so much tobacco because we are going  
8 to tax that. The consumer spending tax says you can  
9 buy whatever you wish, as long as you do not spend more  
10 than so much for it.

11 COMMISSIONER WALLS: I wonder if we could just  
12 get this clarified, because I am quite sure that my  
13 colleague, Mr. Perry, and myself, are still not clear on  
14 this matter and that is you have set up a quota which  
15 you place at approximately \$1,500 per man, woman and  
16 child; right?

17 DR. WEIR: Yes, sir.

18 COMMISSIONER WALLS: So that in effect you  
19 would now have the tax exemptions increased. In the  
20 case of husband and wife to \$3,000. In the case of  
21 husband and wife and two children to \$6,000 exemption;  
22 right?

23 DR. WEIR: That is right.

24 COMMISSIONER WALLS: Then on any expenditure  
25 above that you would start on a graduated scale by a  
26 consumption tax, start at about 50%. Isn't that what  
27 you recommend?

28 DR. WEIR: At the Minister's discretion.

29 COMMISSIONER WALLS: But you suggest about

30 50%?



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H12 1 DR. WEIR: Yes, sir.

2 COMMISSIONER WALLS: Well now, is your idea  
3 of that to replace the present income tax?

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PB/dpw 1 Is your idea of that to entirely replace the present  
2 income tax?

3 DR. WEIR: It is. I feel it is wrong to tax  
4 a person's income. What a person earns is a measure  
5 of what he has done for the community.

6 COMMISSIONER WALLS: You have clarified it  
7 now.

8 COMMISSIONER GRANT: As I understand it now  
9 you wouldn't eliminate the personal income tax, but  
10 your scheme would be such that it would make it almost  
11 ludicrous for any person to pay income tax.

12 DR. WEIR: Again, that is a very good point.  
13 Some of my friends have said, "How is the Government  
14 going to get any revenue?" The point I didn't make  
15 clear in my brief is that the Government could collect  
16 as much or as little from the consumers' spending as it  
17 wants. You could charge 50% on everything a person buys  
18 over \$1,000 or 10% on everything over \$100. That is  
19 then an unfair tax.

20 COMMISSIONER GRANT: On page 6 you mention  
21 that "while mortgage interest is a deduction as a business  
22 expense"-you then say why shouldn't interest or dividends  
23 on bonds or stocks be similarly included as business  
24 expenses. If you are talking about corporate returns,  
25 that is returns of an incorporated company, and  
26 there is a bond issue outstanding as part of the liabilities  
27 of that company, and those bonds have been placed there  
28 for the purpose of raising money to be used in the busi-  
29 ness then I just mention that the interest cost  
30 is deductible.



14 DR. WEIR: Yes.

2 THE CHAIRMAN: Dr. Weir suggests dividends  
3 should be similarly treated as many have suggested who  
4 have appeared before us.

5 COMMISSIONER GRANT: My only argument was:  
6 you said interest on bonds and interest on stock should  
7 be included as business expenses. At the present time  
8 interest on bonds is.

9 THE CHAIRMAN: You suggest that other countries  
10 do not have inordinate difficulties in the collection of  
11 capital gains tax. The United States tax administrators  
12 say it is a very difficult tax to collect. I don't know  
13 about the U.K. experience or, in fact, the experience of  
14 other countries. Before we get through we will find out.

15 DR. WEIR: Yes, sir.

16 THE CHAIRMAN: Any questions?

17 Dr. Weir, I think we fully understand the  
18 submission. I think it is an extremely interesting one,  
19 indeed. It is certainly a full measure of economic  
20 control. There is no two ways about it. If such was  
21 applied the Government would have a pretty firm grasp  
22 on consumer spending. Perhaps that is what is needed.  
23 Frankly, I don't know. In all events, it would be quite  
24 drastic; whether the Canadian people would receive and  
25 accept anything as drastic as that I think remains to be  
26 seen. I acknowledge, though, it is one way of affecting  
27 consumer spending.

28 DR. WEIR: May I ask one favour of you, sir,  
29 if it is not too much? I would appreciate very much  
30 your considered opinion when you write your brief as to





I3 1 why we should or should not adopt consumer spending tax.  
2 If you disagree with me that is fine, as long as I know  
3 why.

4 THE CHAIRMAN: I have no hesitancy in assuring  
5 you we will give consideration to what you have put  
6 before us. Is there anything else you would like to say  
7 to us?

8 DR. WEIR: No, sir.

9 THE CHAIRMAN: We are very grateful for you  
10 coming before us and taking the trouble to write this.  
11 It is good of you to do so and to help us in our task.  
12 Thank you very much, indeed, Doctor.

13 Mr. Secretary, can we stand over until tomorrow?

14 THE SECRETARY: Yes. I just have two small  
15 briefs to enter into the record, Mr. Chairman. The  
16 first brief is of Mr. G.V. Towle of Vancouver as Exhibit  
17 141.

18  
19 --- EXHIBIT NO. 141: Submission of Mr. G.V. Towle.

20  
21 THE SECRETARY: And another one, sir, is from  
22 Mr. Edward F. Wittingdale of Victoria, which will be  
23 Exhibit 142.

24  
25 --- EXHIBIT NO. 142: Submission of Mr. Edward F.  
26 Wittingdale.

27  
28 THE CHAIRMAN: Thank you.

29 --- Adjournment  
30











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ROYAL COMMISSION ON TAXATION

4  
5 Hearing held in Room 305,  
6 Vancouver Public Library,  
7 750 Burrard Street,  
8 Vancouver, British Columbia,  
9 on the 16th day of August,  
10 1963.

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17 COMMISSION:

18 MR. KENNETH LeM. CARTER -- Chairman

19 MR. J. HARVEY PERRY

20 MR. A. EMILE BEAUVAIS

21 MR. DONALD G. GRANT

22 MRS. S.M. MILNE

23 MR. CHARLES E.S. WALLS

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28 LEGAL ADVISER:

29 MR. J.L. STEWART, Q.C.

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40 RESEARCH DIRECTOR:

41 PROF. D.G. HARTLE

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MR. G.L. BENNETT

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I

ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF VANCOUVER, BRITISH COLUMBIA

August 16, 1963

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Vancouver, British Columbia.

Mr. James A. Smith,  
New Westminster, B.C.

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IV

The Hon. E.D. Fulton, P.C. Q.C.

August 16, 1963

On behalf of The Progressive  
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V

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VI

The Heavy Construction  
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A2 1 --- On commencing at 9.30 a.m.

2 THE CHAIRMAN: Mr. Secretary, we have now  
3 reached 9.30 and I think we will commence.

4 THE SECRETARY: Good morning, Mr. Chairman,  
5 Commissioners. The first brief this morning is being  
6 presented by Mr. James A. Smith. He is senior partner  
7 of Smith-Reed Printers of New Westminster. He is here  
8 this morning to speak to his brief which I now enter into  
9 the record as Exhibit 143.

10

11 --- EXHIBIT NO. 143: Submission of Mr. James A. Smith.

12

13 SUBMISSION OF MR. JAMES A. SMITH

14 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
15 morning, Mr. Smith. It is nice of you to come to see us  
16 today and put this submission before us. Don't stand  
17 unless you wish to do so. Most people don't, as a matter  
18 of fact. We appreciate your assistance and certainly we  
19 would like to explore your views a little further. We  
20 have questions to put. Before doing so, Mr. Smith, do  
21 you want to add anything or to say anything in addition  
22 to the brief? You don't need to read it.

23 MR. SMITH: You have been through it. I have  
24 some explanations and some further exhibits. There are  
25 one or two instances I would like to refer in short  
26 detail to show what trouble we get into with certain  
27 aspects of taxation matters.

28 THE CHAIRMAN: If there are instances would you  
29 like to hold them until we get to that place.

30 MR. SMITH: Of course, I have them in their



A3 1 sequence.

2 THE CHAIRMAN: I think we will probably start  
3 fairly close to the beginning and work through. If we  
4 jump around a bit, when you feel the examples fit in,  
5 please do so.

6 MR. SMITH: Yes.

7 THE CHAIRMAN: You are a small printer in  
8 Vancouver, job printer?

9 MR. SMITH: New Westminster.

10 THE CHAIRMAN: Job printing shop with five  
11 permanent employees?

12 MR. SMITH: I have six now.

13 THE CHAIRMAN: I think we will skip over tariffs,  
14 if you don't mind. While we have a minor interest in  
15 tariffs we are not really directed to it by our instruc-  
16 tions as we are to all taxes. Page 2 is Excise Depart-  
17 ment, Sales Tax Division. We are, of course, very much  
18 interested in sales tax and you say a lot of things about  
19 sales tax here. Paragraph 5:

20 "The regulations, past and present, state  
21 that a person or corporation may print  
22 for its own use material not in excess of  
23 \$3,000 in any one year, tax-exempt. But  
24 some person in the Excise Department ruled  
25 that tax-collecting printers were not  
26 entitled to this exemption."

27 That is, I suppose, where printers turn out  
28 stuff for their own use?

29 MR. SMITH: I have the old section right here

30 and the new section. May I read from the old section.





A4 1 by which some person in the Excise Department in Ottawa  
2 barred us from receiving this exemption. It is right  
3 here. I will give you the date of this; March, '46.  
4 That is one thing I am going to produce.

5 THE CHAIRMAN: March, 1936?

6 MR. SMITH: March, 1946, the regulations.

7 THE CHAIRMAN: March, 1946.

8 MR. SMITH: That is where the trouble started,  
9 and as far as I can recall they had the same identical  
10 regulations. Shall I read this old regulation:

11 "Where persons, firms or corporations..."

12 THE CHAIRMAN: Could you interpret it for us?  
13 It is pretty hard to get a regulation read like that.

14 MR. SMITH: Well, it is is this - it states  
15 here persons, firms and corporations may print - inter-  
16 pretation of it - up to an amount of \$3,000 in one year  
17 for their own use without accounting for federal sales  
18 tax. It doesn't say printers shall be exempt from that.  
19 That is the old Act. Someone in Excise took it upon  
20 themselves to exclude printers from that benefit. I  
21 took that matter up and this dispute went on for about  
22 20 years with the inspectors - auditors - that came in  
23 from the Sales Tax Division.

24 I asked them to show me in the regulations  
25 where printers were excluded from that benefit. None  
26 of them could.

27 COMMISSIONER WALLS: Could I ask you a question?  
28 Did you study Regulation 24, because I understand that  
29 this states any licensed printer or publisher who produces  
30 by any taxable operation printed matter for his own use



A5 1 to a value in excess of \$3,000 per annum is required to  
2 account for sales tax on his total production of the  
3 printed matter so produced.

4 MR. SMITH: That is printing for any purpose?

5 COMMISSIONER WALLS: For his own.

6 MR. SMITH: I mean on this item here, Section  
7 12, page 18, of the old regulations - I think the section  
8 you have there is for general printing for sale and for  
9 his own use.

10 COMMISSIONER WALLS: No, it is for his own use  
11 entirely.

12 MR. SMITH: That is right. What I contended is  
13 this: that any legislation that is excluding a printer  
14 under it - this legislation is discriminatory. It is  
15 discriminatory. It is vulnerable to attack and should  
16 not be in there.

17 THE CHAIRMAN: Do I understand, Mr. Walls,  
18 printers as well as everybody is exempt for this \$3,000?

19 COMMISSIONER WALLS: Not necessarily the first  
20 \$3,000. If the job he is doing for himself is under  
21 \$3,000 it is exempt. If it is over \$3,000 he doesn't  
22 get the \$3,000 exemption. He pays on the total amount.  
23 MR. SMITH:  
24 I don't think that any printer prints more than \$3,000  
25 for his own use. That would be an enormous amount for  
26 company use. Each time the auditor comes he would make  
27 an assessment of various amounts, \$5, \$10, \$30, and come  
28 every two years, two-and-a-half years - he would make that  
29 assessment and demand we pay taxes on the assessment he  
30 made, although in that old regulation and in the new one  
we were entitled to the benefit of this exemption as were



A6 1 other persons. It says quite definitely where persons,  
2 firms, or corporations produce printed matter for their  
3 own use - it doesn't say printers shall be excluded. This  
4 is what started the matter and after the matter was  
5 thought out they made a new regulation which is almost  
6 identical under Section 24, sub-section 2, and then again  
7 sub-section 3. I don't know why they made both these  
8 sections. One says:

9 "Any person other than a licensed printer  
10 or publisher -"

11 and it is the same exemption and the particulars in there  
12 are identical, so that I think if you read that through  
13 the idea is to keep printers separate from other people.  
14 Therefore, I think Clause 3 is entirely redundant in the  
15 new regulations.

16 THE CHAIRMAN: Mr. Walls, what do you think?

2 17 COMMISSIONER WALLS: The reason why there are  
18 two sections, the one section dealing with the printers  
19 and the other section dealing with other than printers  
20 goes back to a court case with one of the banks in the  
21 1930's where they declared, they having printed their own  
22 stationery, <sup>that</sup> they were a manufacturer.

23 MR. SMITH: I heard of that, yes.

24 COMMISSIONER WALLS: They have gradually eased  
25 on it. At one time they allowed \$3,000 based on the cost  
26 of material plus 220% only to apply to certain types of  
27 printing. Now, it applies to all types of printing.  
28 That is why I think there are two sections there, because  
29 of this previous decision dealing with other than printers.

30 MR. SMITH: That is right.





A7

1 THE CHAIRMAN: Can you answer Mr. Smith as to  
2 whether it is discriminatory against printers?

3 MR. SMITH: It was at that time.

4 COMMISSIONER WALLS: I am not prepared to yet.

5 THE CHAIRMAN: Is it now?

6 MR. SMITH: No, there is a new section.

7 THE CHAIRMAN: It takes care of that.

8 MR. SMITH: After I refused to pay that last  
9 assessment of \$48 - there is quite a story to it. I  
10 will keep it short. We went to a solicitor the time they  
11 assessed the \$48 tax on printing for our own use which  
12 was an amount less than \$3,000 in a period longer than  
13 one year.

14 We went to the solicitor and he told us we  
15 didn't owe it and there was no law, as far as he knew,  
16 there was no law on the matter. We requested then the  
17 excise people to take it to court and we believed we  
18 had the right to defend ourselves, but instead of that  
19 they wouldn't do it. They kept on billing us additionally  
20 every two, three and four months, adding penalty and  
21 interest in each case. You will see that here.

22 I was forced to go to the Minister of National  
23 Revenue. There is something interesting in that. We  
24 got through to him, through the Department of Justice.  
25 The lawyer who considered it - I said to him, "Well,  
26 let's have a last fling at this thing and see what I  
27 can do." I put the proposition to the Department of  
28 Justice we had been assessed for this amount and our  
29 solicitor advised we are not liable.

30 The excise people had refused to proceed to





A8 1 court and kept sending us these additional billings.

2 I pointed out that we had endeavoured to plead in court  
3 in the matter when our solicitor told us we were not  
4 liable for anything.

5 COMMISSIONER WALLS: Just a minute, Mr. Smith,  
6 I think you have struck quite an important part, and  
7 you are in a position to give us some guidance here.

8 MR. SMITH: Yes.

9 COMMISSIONER WALLS: Actually you weren't  
10 entitled to go to court, except  
11 on points of law. The recourse under the Excise Tax Act  
12 is the tariff Appeal Board or ministerial decision. In  
13 this case you got a ministerial decision eventually.  
14 You could have made application to the tariff Appeal Board  
15 or for a ministerial decision. You couldn't have taken  
16 it to court except on a point of law.

17 What I am trying to say is this: do you believe  
18 we would be better off if there were provisions under  
19 the Excise Tax Act that you would be able to take it to  
20 court rather than a ministerial decision, keeping in  
21 mind that in your case it was only for \$48? Would you  
22 have gone to court for \$48 rather than a much less  
23 expensive operation of taking it to the Minister?

24 MR. SMITH: If we could appeal direct to the  
25 Minister - I have always found that the people under  
26 the Minister are very hard to deal with. When you get  
27 direct to the head, the Minister, you get satisfaction  
28 immediately. I found all the way through when I am  
29 dealing with the tax people, once you get a subordinate  
30 you don't get very much satisfaction. He will read the



A9 1 book and let it go at that.

2 In the case here ---

3

4

5

6

MR. SMITH: I didn't know, and I don't think

7

my solicitor knew it could go to the Tariff Appeal

8

Board. I was willing to go and I was desperate at this

9

stage. There was nothing for us. We had received no

10

opportunity. There were all these people processing

11

the tax and doing all this work for nothing.

12

COMMISSIONER WALLS: I have a question in

13

respect to your paragraph 12 where you state it was

14

reported that the excise man told a printer in New

15

Westminster if he purchased envelopes at the post office

16

and wanted to print on them he was taxable. That is

17

covered in Regulation 24 and it is qualified by the

18

fact that the tax will be paid on \$5 a thousand.

19

MR. SMITH: Wait a minute, pardon me.

20

COMMISSIONER WALLS: Have you got your paragraph

21

12?

22

MR. SMITH: Paragraph 12?

23

COMMISSIONER WALLS: Yes.

24

MR. SMITH: Regarding printing on post office

25

envelopes and the federal sales tax would apply not only

26

to the printing but also to the cost of envelopes. We

27

are not told why. That thing you have in mind, that

28

\$5 - I have it here. This particular printer came to me

29

and explained the excise man had told him if they went to

30

the post office and purchased envelopes, these stamped



A10 1 envelopes, on behalf of the customer, and printed them,  
2 according to the interpretation I have from Ottawa, and  
3 I have a lot of it - I understand from Ottawa that because  
4 the printer supplied the material, the printing and the  
5 material became an integral part of the sales tax to be  
6 applicable, and not only the printing on the envelope.  
7 The man paid both, the printer.

8           On the other hand, if the customer purchased  
9 the envelopes and brought them to the printer the tax  
10 wouldn't be applied to post office envelopes. Here is  
11 the point, I think: I believe you had have some matters  
12 on double taxation, and I have a raft of correspondence  
13 on this particular matter. As I pointed out, the Depart-  
14 ment in Ottawa, the Federal Government, is required by  
15 the Act to pay sales tax when they are going to purchase.

16           It would follow the postmaster would have paid  
17 this tax on these envelopes when he purchased them. The  
18 federal sales tax is once paid. If the Department  
19 demanded the printer pay a tax on the post office  
20 envelopes that would a double tax. I believe it is  
21 gumming up the economy, the double tax.

22           I explained to the man in Ottawa - I wrote him  
3 23 myself. I have a lot of correspondence here. I said I  
24 wasn't going to be buried with double taxation. We  
25 could eliminate all this trouble if he so wished by a  
26 stooge going and buying the envelopes in somebody else's  
27 name if the customer wasn't available to go and procure  
28 the envelopes.

29           We don't make any charge to the customers for  
30 this service of going and buying the envelopes and paying



All 1 out the cash.

2 On April 13th, 1961, I got a letter:

3 "If, therefore, you purchase postcards  
4 from the post office, perform printing  
5 operations thereon, and charge your  
6 customer at an all-inclusive price for  
7 the job, the sales tax applies to the  
8 total charge in accordance with the  
9 above definition. If, on the other  
10 hand, the actual amount paid on the  
11 account of the postcards is billed as  
12 a separate item on your invoices for  
13 the printing, it is not considered that  
14 the charge for the postcards would be  
15 subject to sales tax."

16 Why didn't they say that in the first place and  
17 eliminate all this correspondence and problems that I had  
18 with them? It is awfully hard to get it through their  
19 heads.

20 COMMISSIONER WALLS: I agree maybe it is hard  
21 to interpret. It seems to me the \$5 per thousand...

22 MR. SMITH: That is another matter.

23 COMMISSIONER WALLS: It is part of the same  
4 24 section.

25 MR. SMITH: I thought that, too.

26 COMMISSIONER WALLS: They said this was to be  
27 the cost of already-taxed envelopes ---

28 MR. SMITH: Paragraph 27, Section 7, isn't it?  
29 I have it right here - the section I am looking at,  
30 Section 7 - I don't know what paragraph it is; 24 under





A12 1 Section 7:

2 "The value to be used for calculating the  
3 sales tax payable on taxable imprinting  
4 is to be determined as \$5 per thousand."

5 Is that the one you are referring to?

6 COMMISSIONER WALLS: If you read 6:

7 "The imprinting of names, addresses,  
8 numbers, or any combination thereof on  
9 tax-paid envelopes, and so on, is a  
10 taxable operation. The value to be used  
11 for calculating the sales tax payable on  
12 taxable imprinting is to be determined as  
13 \$5 per thousand."

14 What I want to find is \$5 a thousand a fair  
15 cost?

16 MR. SMITH: That is what I was coming to.

17 That is particularly in reference to paragraph 7 - I  
18 have a little memo on the value to be used - a trade  
19 magazine published by Maclean-Hunter suggests a price  
20 of \$1.75 for imprinting after the first one thousand  
21 pieces of material. The reason for that point is that  
22 after the first thousand the man has set up the different  
23 presses; the cost to get the press ready for such a  
24 variety of jobs. One might have 15 presses to get ready  
25 for that first thousand.

26 You might have 20 minutes or half-an-hour if  
27 it were coloured, washing up. If the first thousand is  
28 \$1.75 a thousand - that is what they suggest, and they  
29 set a price of \$5 per thousand - the regulation makes no  
30 provision for the additional thousands of sheets printed.



A13 1 In one instance we have a job of 260,000 -  
2 if you run into that quantity and charge \$5 a thousand  
3 for the purposes of fixing the tax of the \$5 it is  
4 going to make that material, the cost of it, so high  
5 it would be better to take it all out and burn it. If  
6 we pass our charges on on those large quantities it  
7 would be necessary to charge the customer \$30 per hour  
8 of press time to satisfy the whims of the Excise Depart-  
9 ment.

10 The regulations do not say \$5 per 1,000  
11 impressions or \$5,000 per thousand of finished pieces.  
12 We have two presses that will print two sheets at the  
13 same impression. We also have imprinted sheets on which  
14 there were six images before cutting. If we imposed a  
15 price as suggested by the Excise Department on large  
16 quantities, \$5 a thousand plus 11% tax, the cost would  
17 become prohibitive and doubtless the material would be  
18 abandoned.

19 COMMISSIONER WALLS: I think you have answered  
20 that.

21 MR. SMITH: I humbly submit that the only way  
22 to simplify this dictatorial directive is to have it  
23 deleted from the regulations and I urge the Commission-  
24 to so recommend.

5 25 THE CHAIRMAN: Thank you very much, Mr. Smith.  
26 In support of sales tax I think your general recommendation  
27 relates to simplification, the need for simplicity in  
28 taxes. This is the general statement you make. There is  
29 certainly some specific matters you refer to under the  
30 heading of Sales Tax.



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A14 1

MR. SMITH: I think that recommendation would

2 clear up all the trouble we have run into. I wish you  
3 would listen to that - all the purchase orders and every-  
4 thing else that has caused all the trouble.

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B/MR/dpw

Now, to protect the licensee - we have got into plenty of difficulty with this. One thing I would suggest is that the excise tax be amended in such a manner that the licensee couldn't be held liable for the tax in the case of jurisdictional disputes between governments or departments of governments or when the licensee has been issued wrong information as to the application of the tax, and we have had wrong information from the Department, the application of this amendment be held against all governments in Canada, federal, provincial and municipal.

I would further suggest that the licensee be held not liable for the federal sales tax should the goods on which the tax was levied be obtained by fraudulent means.

Also, that in the case of forced liquidation or bankruptcy, the Federal Government, having been notified of such insolvency or bankruptcy by the licensee, shall file its claim for any outstanding federal sales tax against the estate and absolve the licensee from liability of the tax.

(In the case of a bad debt the Provincial Government protects the licensee in that it states in the Act, that the debtor is, and shall remain liable for the tax).

COMMISSIONER WALLS: I note in another section you are complaining about the fact that you get paid by the Provincial Government for collecting the sales tax and not the Federal Government.





BQ MR. SMITH: Yes.

2 COMMISSIONER WALLS: I understand now from the  
3 Provincial Government you get 3%?

4 MR. SMITH: That is right.

5 COMMISSIONER WALLS: Do you consider 3% is a  
6 fair return for the collection of taxes?

7 MR. SMITH: Since they have raised it to five,  
8 I would consider the tax rides along with it - any  
9 increase in the tax should be parallel to it. I think  
10 if the Government wants 11%, we should, for the  
11 increased cost of handling this thing - there is more  
12 liability as they increase the amount. I don't think  
13 that 3% is - it doesn't cover the paper and ink we write  
14 on. There is so much - I have got a sheet here. I would  
15 like to show it to you. There is so much concerned.

16 Mr. Chairman, regarding that sheet there, we  
17 have made over 3,400 entries last year. Now, I don't  
18 know any more simple way to keep an account of the two  
19 sales taxes, and I don't think it can be done any other  
20 way because some exemptions don't apply to one tax and  
21 some exemptions don't apply to the other tax and for the  
22 bookkeeping it is quite a chore in a small business with  
23 six employees, two working partners, to keep that.

24 As I have noted in here we pay an outside  
25 accountant, two senior members - students from a  
26 chartered accountant, and the senior member who keeps  
27 an eye on them - do that for \$500 a year and they do  
28 practically nothing else but all our control ledger and  
29 taxation and making out each month the cheques, and they  
30 do that work. I call that insurance. This is quite



B3 1 expensive. We put a lot of work into this and not getting  
2 any thanks from the Federal Government at all; nothing.

3 COMMISSIONER MILNE: Mr. Smith, Commissioner  
4 Walls asked you if you felt that the 3% commission was  
5 adequate for the province and you also, I believe,  
6 mention there should be some recompense for the work to  
7 the Federal Government. Do you believe that there should  
8 be a commission?

9 MR. SMITH: By all means, a person should be  
10 recompensed for their labour. That was in the Bill of  
11 Rights by the United Nations. Mr. Pearson brought it  
12 back with him. The Federal Government didn't put it in  
13 our Bill of Rights.

14 THE CHAIRMAN: Shall we move on from sales tax?  
15 "Extension of tax-free period for casual labour." I am  
16 not altogether clear as to what is intended there. That  
17 relates, I think, to the unemployment insurance, I take it?

18 MR. SMITH: Well, the point becomes subject  
19 then also to income tax. You are hooked up with two  
20 government agencies if you take them for a period of  
21 over three days.

22 THE CHAIRMAN: Less than three days you make  
23 no deduction for income tax?

24 MR. SMITH: That is right. They are casual  
25 labour, and no return to the Unemployment Insurance  
26 Commission.

27 THE CHAIRMAN: What would you do about that?

28 MR. SMITH: I would recommend the period be  
29 extended. As I say here, we have had times when a  
30 person could be kept on for four or five days. I have



B4 1 recommended an increase in the period of exemption.

2 THE CHAIRMAN: Thank you.

3 MR. SMITH: A change in the regulations later,  
4 surely it wouldn't do the Government much damage if they  
5 started collecting taxes - I mean most of these people  
6 that come in on casual labour, bindery women, girls who  
7 help out, they are generally married women that have got  
8 a couple of days, and children growing up, and we 'phone  
9 three or four different people and they come in; no  
10 intention of being permanent employees, but then there  
11 are times when we take on a new man, for instance, at  
12 rare times, and he has got to be there more than three  
13 days before we can assess his ability. After three days,  
14 he becomes an employee according to the unemployment  
15 insurance and income tax.

16 THE CHAIRMAN: It may well be that there will  
17 be substantial losses in other industries. We don't know  
18 at the moment.

19 MR. SMITH: Yes, it would apply all the way  
20 through, I should think.

21 THE CHAIRMAN: I am moving on to page 8. As  
22 you well know our terms of reference are to recommend  
23 such changes as would produce the necessary revenue for  
24 the Government.

25 MR. SMITH: Yes, I read that; sufficient revenue.

26 THE CHAIRMAN: If one reduces income and corpora-  
27 tion taxes, presumably one must look somewhere else to  
28 make it up. I don't think you suggest where to look.

29 MR. SMITH: Oh, yes. Probably not at that  
30 particular paragraph, but if you will turn over to the



B5 1 paragraph dealing with capital gains you will see some  
2 amazing opportunities to receive some revenue there.

3 THE CHAIRMAN: I remember that now, thank you.

4 MR. SMITH: You see, I think it was the manager  
5 of the Ford Motor Company - if I remember - who was at  
6 a meeting with the Department, Mr. Nowlan and others,  
7 and his idea at the time was they could compete through  
8 getting a reduction in tax. I don't know how much, but  
9 they could compete and sell numerous, or great amounts  
10 of small parts from the Ford Company to the northern-  
11 eastern United States, but apparently with the taxation  
12 as he outlined it, it wasn't possible, but they thought  
13 there would be competition if some adjustment could be  
14 made.

15 Another thing, too, you mention that - just  
16 in yesterday morning's paper, you see, the Ways and  
17 Means Committee of the United States have approved of  
18 Mr. Kennedy's reduction in taxation and it is already  
19 to go before the United States House of Representatives.

20 THE CHAIRMAN: Not only you, but this morning's  
21 Province draws this to our attention.

22 MR. SMITH: Mr. Kennedy's theory is there will  
23 be improved spending, increased business in general.  
24 It is better to have tried and failed than not to have  
25 tried at all.

26 THE CHAIRMAN: Now, dealing with the 3% commis-  
27 sion to government, I am on page 12, we have really  
28 discussed a lot that is said on page 12. Mr. Smith  
29 referred already to his accountants and the cost of collec-  
30 tion.





B6 1 MR. SMITH: It is hard for me to say what  
2 amount. It seems to me it would only be reasonable and  
3 just to get some compensation for the work we do in that  
4 regard. One item on that page I trust you will ---

5 THE CHAIRMAN: I have always thought that  
6 there was one circumstance that would mitigate largely  
7 against that, against paying people for collecting  
8 income taxes. Most manufacturers are required to collect  
9 taxes, and if that were the case, the cost of collection  
10 is spread over the whole lot of them, and I would assume,  
11 if one paid them something for it, that payment would  
12 have to be recovered out of taxation and it would go  
13 mostly against the people who collect it.

14 MR. SMITH: Sundry revenue, of course, has got  
15 to be found some place, if you want to make a profit. It  
16 doesn't matter what you do.

17 There is one little item I would very much like  
18 to point out on this page:

19 "Under the present Canadian tax system of  
20 taxation there appears little incentive  
21 to perpetrate or expand a small business  
22 if one considers the return on capital  
23 investment and the work involved in tax  
24 collection."

25 Now, last year, the Department of Revenue, I  
26 don't know if it was the Minister, announced that there  
27 would be a tax incentive upon income tax providing sales  
28 increased in the amount of over \$50,000. We had an  
29 increase, and I asked for particulars and we did apply.  
30 Now, this is dated February 4th, Department of National



B7 1 Revenue:

2 With regard to your letter of January 30th,  
3 1963, please be advised that Section 48..."  
4 which is the section dealing with the production incentive  
5 "...is only applicable to corporations.

6 It is regretted that a more favourable  
7 reply cannot be given."

8 As a partnership we were barred from receiving  
9 any benefit. That seems hardly fair. After 33 years  
10 of faithful work for the Government on this tax business  
11 surely we could get some of this.

12 THE CHAIRMAN: I don't know why it was restricted  
13 that way. It was a rather limited sort of thing. It did  
14 not extend, really, to all industry.

15 MR. SMITH: I didn't go into complete details  
16 after that. I didn't bother with it.

17 THE CHAIRMAN: Certainly engineers, professional  
18 people - I am an accountant. I am not entitled to it.

19 MR. SMITH: Yes, I know.

20 THE CHAIRMAN: And I don't think I should be.

21 MR. SMITH: There is a correction on this same  
22 page. A correction at paragraph 5. Instead of "return  
23 on capital investment" that should be "profit on sales."  
24 In paragraph 5, the second last line, instead of "return  
25 on capital investment" please correct that to "profit on  
26 sales."

27 THE CHAIRMAN: "...if one considers the profit  
28 on sales..."

29 MR. SMITH: That is right, because I have a  
30 schedule here issued by the Imperial Bank of Commerce



B8 1 showing a profit on sales right across Canada in various  
2 industries. Would you care to peruse that?

3 THE CHAIRMAN: I think I have seen it, thank  
4 you.

5 MR. SMITH: I think you have the figures on  
6 their monthly bulletin. In February, 1963, it is a very  
7 interesting point they came up with and just last night  
8 I see that the petroleum industry had the highest net  
9 profit in Canada; 14.6, and the Imperial Oil last night  
10 raised the price of gasoline here and complained that  
11 their profit wasn't enough.

12 THE CHAIRMAN: I question the validity of a  
13 measurement based on sales to indicate the justification,  
14 or otherwise, of a price increase of that kind. After  
15 all, one invests money to get a return on the money  
16 he invests, not to make a profit on what he sells.

17 MR. SMITH: What is indicated here was much  
18 better than that, as far as printing goes. That is the  
19 average, of course.

20 THE CHAIRMAN: You believe in a capital gains  
21 tax in that it will slow down some of the speculative  
22 financial fun and at the same time tend to prevent over-  
23 capitalization of some companies. I was under the impres-  
24 sion that it was thought there was a shortage of Canadian  
25 capital and that we needed to encourage capital for the  
26 development of our resources. If that is so, I would  
27 have thought that a capital gains tax would operate  
28 against those desirable objectives.

29 MR. SMITH: Well, as I say, they are advertising  
30 that Canada is one of the few places in the world - people



B9 1 that do that advertising, you have a copy of it, I believe

2 - where you can ~~make so much~~ money without paying any taxes.

3           Couldn't we all pull some of the load instead  
4 of putting so much on to industry? That is the point I  
5 want to make. Quite frankly, people are advocating  
6 continually that further taxes ought to be put on the  
7 industry. There is a man here in the last civic election  
8 in Vancouver City: he was going to cure all the financial  
9 ills by putting more taxes on industry through civic  
10 bylaws.

11           A professor at the university advocated more  
12 taxes on industry and at the same time the Minister of  
13 Highways of British Columbia just a few months ago made  
14 a speech in Vancouver: what we need to employ people is  
15 more secondary industry in British Columbia.

16           At the same time some of these people are not  
17 pulling their share of taxes. These people couldn't  
18 make such a fortune, if it was not out of capital gains.  
19 They are not pulling their share of the taxes of Canada.

20           You refer to capital in Canada and I have the  
21 annual report here of the Royal Bank. At the end of the  
22 year the money on deposit was \$4,210,830,929 and the  
23 reserves amounted to \$244,716,475. That is only one  
24 bank.

25           It is amazing to me, and what I would like to  
26 bring up - I don't know whether this Commission has  
27 jurisdiction, but why does our government, provincial  
28 and federal, when they want a short-term loan, go to  
29 New York? Surely we have money; so much deposited in  
30 Canada, that we can deal with our own banking. They say,





1 "Think Canadian," but in the monetary field they don't  
2 seem to think Canadian.

3 THE CHAIRMAN: I think we have got enough to  
4 do on taxation, thank you.

5 MR. SMITH: I imagine you have.

6 THE CHAIRMAN: Turning over to evasion of  
7 corporation taxes (5):

8 "Under the present system of stock dividends  
9 the large stockholder becomes progressively  
10 rich and the little fellow gets the crumbs."

11 I am curious as to just how that operates in  
12 that way. I don't see much in the nature of stock divi-  
13 dends, or declaration of stock dividends in this country,  
14 because they are taxable, and people usually split their  
15 stock rather than declaring stock dividends, I think. I  
16 daresay you would include that in the term "stock divi-  
17 dends ?

18 MR. SMITH: Yes. I am not very well versed  
19 in high finances, but there are so many stock splits,  
20 you see, splitting the stock two for one and things like  
21 that, and then the stock starts to grow again; surely  
22 there is an enhancement of the original investment,  
23 whether taxable or not, or what could be taxed.

24 THE CHAIRMAN: There is an accumulation of  
25 profits within a company, that is quite true. The  
26 profits that accumulate are subject to corporation taxes  
27 and not subject to distribution tax, until distributed.

28  
29  
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C/PB/dpw

THE CHAIRMAN: Mr. Walls, you have a question

here.

COMMISSIONER WALLS: On page 16 where you are dealing with taxation for subsidies; I am not questioning any of your statements or making any brief for a subsidy, but is it not a fact, Mr. Smith, that your own activity is protected by a 25% tariff and the fact is <sup>therefore</sup> you are also subsidized by the consumer?

MR. SMITH: Well, that is a questionable thing. I don't think it has been answered definitely without some preparation of figures, some debate on the matter. I haven't investigated definitely, but I think we could stand the gaff without it.

COMMISSIONER WALLS: Thank you.

MR. SMITH: It depends on the efficiency of the operation of the plant. Some couldn't possibly exist if you took off tariffs. If we kept up to date I think we could stand it. I think we would equal at least Seattle competition. I believe we could.

THE CHAIRMAN: Just to satisfy my curiosity - I don't know if it is important, paragraph 12 on page 17, who are those who acquire professional status at public expense?

MR. SMITH: Those are university graduates who through professional education are receiving considerable sums either in their profession as an individual or engaged by companies. I should say solicitors ---

THE CHAIRMAN: Doctors.

MR. SMITH: Doctors.

THE CHAIRMAN: Accountants.



C2 1 MR. SMITH: Accountants - what I had in mind.  
2 I speak of all the taxation for education. They put  
3 taxes on ordinary machinery in British Columbia. What I  
4 would like to see is this: I believe it would be permis-  
5 sible and it would be permissible to some extent with  
6 the Dominion-provincial agreement on taxation, that if  
7 they want further taxes the most costly part by far is  
8 the university - these people acquire certain efficiency  
9 through that very costly part of education. The printers  
10 don't get help with machinery.

11 Supposing - these people receive probably  
12 2, 3, 4 degrees from university, some of them. They go  
13 out and they don't pay additional costs as industry does  
14 to support education, although the benefit they receive  
15 is tremendous.

16 THE CHAIRMAN: I would like to point out in  
17 their defence some of the colossal sacrifices they make.  
18 I have a son-in-law, son of a clergyman training to be  
19 a doctor. To be a surgeon will take him until he is  
20 practically 35 years of age. In the meantime, with a  
21 wife and family, he is paid \$150 a month.

22 MR. SMITH: I agree. I have a son-in-law and  
23 a son, both professional people. If you get on the  
24 other end of it you will see it is pretty grim at times  
25 having to supply that extra. Supposing they paid an  
26 equal amount, not extra tax - equal amount to support  
27 education by that much. The professional people don't.  
28 I will go a step further: you said they sacrifice a great  
29 deal of their life; that is true. I will go a step  
30 further: when a printer starts off - sir, I don't know



03 1 if you could establish a place like this for less than  
2 \$100,000. When a doctor starts out and is through his  
3 internship he has the finest workshop that could ever be  
4 provided, every facility provided at public expense to  
5 go to work. We buy the equipment. The doctor has his  
6 provided. There is some advantage there.

7 THE CHAIRMAN: It is very hard for us to sit  
8 here and judge the equitable position between the profes-  
9 sional and the manufacturer.

10 MR. SMITH: It would be a great ~~debate~~ if it ever  
11 took place.

12 THE CHAIRMAN: I don't think we will accomplish  
13 very much. I merely want to point out there is a great  
14 deal on the part of the other fellow. He has to make a  
15 sacrifice or he doesn't get there.

16 Mr. Walls generally majors in sales tax. He  
17 has probably got something to say about sales tax on  
18 freight.

19 COMMISSIONER WALLS: No, because actually  
20 the province is not within its jurisdiction in charging  
21 direct tax and it is not a tax on freight. It is a tax  
22 on the product, isn't it?

23 MR. SMITH: Well, I want to question that  
24 point. I know one case; some people bought stuff in  
25 Montreal and the freight bill came in separately and the  
26 provincial auditor required him to pay tax on the freight  
27 bill as well as the material. That came to my attention.

28 COMMISSIONER WALLS: One other question I  
29 would like to put to you, and maybe I am moving ahead a  
30 little fast - it is on page 22, dealing with provincial





1 sales tax. You state that you would like to see both  
2 provincial sales tax and federal sales tax combined.

3 MR. SMITH: Yes.

4 COMMISSIONER WALLS: Of course, you happen to  
5 be one of the relatively few manufacturers  
6 that are both in the manufacturing end and the retail  
7 end, and it is on that you get caught.

8 MR. SMITH: The retail part is what gets it.

9 COMMISSIONER WALLS: Having decided you would  
10 like to have them combined, have you given any thought  
11 as to what level you would have them combined?

12 MR. SMITH: Yes. We have done this with income  
13 tax and it has worked out pretty well with revision  
14 from time to time. The rate of unified tax as at  
15 present computed would be 17% as the B.C. tax is a  
16 compounded one and further consideration would have to be  
17 given to the fact that B.C. tax is a continuing one,  
18 that is the tax continues to be collected on all goods  
19 until the material is consumed or finally disposed of.

20 We always start off with a tax and later on  
21 it goes up - upset the economy. We could start off the  
22 new combined tax at 30% which would provide for a small  
23 compensation for collection fees.

24 COMMISSIONER WALLS: You would have a combina-  
25 tion of tax at the retail level?

26 MR. SMITH: My major idea is to get rid of  
27 some of this bookkeeping, to have one entry instead of  
28 two entries on each invoice and in the record book. I  
29 mean, it follows, Mr. Walls, that if they combine it  
30 with the income tax surely we could combine that in the



C5 1 two sales taxes, establish a level of agreement for  
2 exemptions, cut out one set of exemptions

3 COMMISSIONER WALLS: Do you think the consumer  
4 would object to having to pay double retail sales tax  
5 amounting to, say, let us say, a minimum of 13%?

6 MR. SMITH: Combined tax would be 11% and five,  
7 minimum of 17.

8 COMMISSIONER WALLS: That is 11% at the manufac-  
9 turing level ?

10 MR. SMITH: Yes.

11 COMMISSIONER WALLS: ~~Because at pyramids~~ it would re-  
12 quire a lesser percentage at retail level to supply the same  
dollar tax value.

13 MR. SMITH: I see what you mean.

14 COMMISSIONER WALLS: It would bring it down to about  
15 8%; plus 5% provincial/which would be 13%

16 MR. SMITH: We will get back to Mr. Carter's  
17 suggestion for the purpose of providing sufficient  
18 revenue - that would have to be worked out. You would  
19 have to work it out. It would have to be worked out from  
20 that. I imagine it could be done quite easily.

21 THE CHAIRMAN: I don't think I have any further  
22 questions.

23 MR. SMITH: I have a brief - a number of  
24 exhibits here, if there are no further questions, if  
25 you would permit there are quotations from other people.  
26 I am not alone in some of these things.

27 THE CHAIRMAN: I think you have submitted  
28 your submission pretty well, Mr. Smith. You are at the  
29 point of exasperation by interpretation of regulations.  
30 You are troubled with the complexities of these things.



36 1 Your primary concern, I think, relates to sales tax.

2 MR. SMITH: That is the one.

3 THE CHAIRMAN: I think we got your point most  
4 clearly. If you have anything you would like to leave  
5 behind you can turn it over to our Secretary and we  
6 would be glad to attach it to your submission which we  
7 will continue to examine.

8 MR. SMITH: There is one item I would like to  
9 read here. It will just take a minute. I wrote the  
10 Department of Excise of Vancouver asking for a ruling  
11 asking whether goods purchased by or on behalf of  
12 British Columbia Dyking Commission were subject to sales  
13 tax. We didn't get a reply immediately and we wanted  
14 to get the charge through our books. I wired Ottawa  
15 and the reply was:

16 "Taxable goods purchased by or on behalf  
17 of British Columbia Dyking Commission  
18 subject to sales tax."

19 That was dated April 24th. The following day  
20 I received a letter from the Vancouver tax division,  
21 April 25th, stating:

22 "Where goods are ordered on behalf of the  
23 Provincial Government for use by the  
24 Dyking Commission these goods will not be  
25 subject to sales tax providing you have on  
26 hand a Provincial Government purchase  
27 order signed by the Purchasing Commission."

28 There is the word "Commission" coming up and  
29 the Government does use it. If that word is a nasty  
30 word with the Excise then the Purchasing Commission of



C7 1 the Province of British Columbia claim themselves out  
2 from any exemption. There is just one point I want to  
3 make on that: we have in writing a contrary opinion from  
4 different offices of the same department that sales tax  
5 is chargeable. Figure that out.

6 THE CHAIRMAN: We sympathize with you.

7 MR. SMITH: There is just one further thing.  
8 I will read one thing and ask the Committee read this in  
9 Committee. This man sent me out a notice, little collec-  
10 tion notice, although for 33 years we have never been  
11 late with remittances of sales tax - they have a little  
12 memo and twice I got a little note where they emphasize  
13 penalty and interest. They have that on the brain.

14 THE CHAIRMAN: Is that what you call a "smelly"  
15 little letter?

16 MR. SMITH: I reflected that overnight and I  
17 thought what we have done for Canada in the matter of  
18 producing and remitting tax and I said, "We don't  
19 deserve that kind of thing." The more I thought the  
20 more annoyed I became. I wrote a letter and I didn't  
21 pull any punches.

22 THE CHAIRMAN: Would you like to put that on  
23 the record?

24 MR. SMITH: As a result of this letter I got  
25 an apology, so it wouldn't be ethical, in view of the  
26 apology, to have this made public. I would like the  
27 Commission as a Committee to read this letter and express  
28 a view. I am sure a lot of people get the same.

29 THE CHAIRMAN: You would like us to read it  
30 but you prefer to keep it out of the record?





1 MR. SMITH: It can go in your record but I  
2 don't want it made public. The man has apologized but  
3 it is to show the feeling of some people in regard to  
4 excise.

5 THE CHAIRMAN: Very good. We will just read  
6 it and it will not go on the record.

7 Well, you have told us a great deal this  
8 morning. We are very grateful to you for appearing  
9 before us. We have noted your points particularly with  
10 regard to sales tax and we will continue to consider the  
11 matter. Thank you very much, indeed, sir.

12 MR. SMITH: I thank you.

13 THE CHAIRMAN: We will have a three-minute  
14 recess.

15  
16 --- Short Recess

17  
18 THE CHAIRMAN: Mr. Secretary, we will proceed.

19 THE SECRETARY: Mr. Chairman, Commissioners,  
20 the next brief is being presented by The Honourable E.D.  
21 Fulton on behalf of the Progressive Conservative Party  
22 of British Columbia. Mr. Fulton is here with associates  
23 this morning to speak to the brief which I now enter into  
24 the record as Exhibit 144.

25  
26 --- EXHIBIT NO. 144: Submission of The Hon. E.D. Fulton,  
27 P.C., Q.C., on behalf of The  
28 Progressive Conservative Party of  
29 British Columbia.  
30



C9

1 SUBMISSION OF THE HON. E.D. FULTON, P.C., Q.C.,  
2 ON BEHALF OF THE PROGRESSIVE CONSERVATIVE PARTY  
3 OF BRITISH COLUMBIA

4 Appearances: The Hon. E.D. Fulton, P.C., Q.C.  
5 Lovell Murray Merryweather  
6 John de Wolfe

7 THE CHAIRMAN: Thank you. Good morning, Mr.  
8 Fulton. We are delighted to see you this morning. We  
9 are very honoured you would come to see us on behalf of  
10 The Conservative Party of British Columbia. We are glad  
11 to have your submission. As you know, we haven't had an  
12 opportunity of reviewing it. We are somewhat limited as  
13 to time - not that we haven't got time to deal with it;  
14 we will certainly have - but I would ask your suggestion  
15 as to how you think we can expedite this to the greatest  
16 mutual benefit.

17 MR. FULTON: Mr. Chairman, members of the  
18 Commission, may I first introduce the two members of  
19 the staff who are with me.

20 THE CHAIRMAN: Please do.

21 MR. FULTON: I have Mr. Lovell Murray Merry-  
22 weather, our Executive Director, and Mr. John de Wolfe,  
23 Research Director of the Research Association.

24 THE CHAIRMAN: Thank you. I introduce the  
25 Commission to you, whose names are before us.

26 MR. FULTON: Thank you very much. Mr. Chairman,  
27 I appreciate the difficulty which you mentioned, and I  
28 must apologize for not having had the brief in the hands  
29 of yourself and your staff before appearing here this  
30 morning. I had undertaken to have it in the hands of  
Mr. Bennett yesterday afternoon but production and other



1 problems delayed it until this morning.

2 By way of explanation I can only say as I have  
3 said in the brief it had not been our intention to make  
4 a submission until, to my very considerable surprise, I  
5 learned it was not the intention of the Government of  
6 this province to make a submission. It left me and  
7 would have left them six days to prepare it. As you  
8 appreciate, Mr. Chairman, one does not make a submission,  
9 to this or any other Royal Commission on a problem as  
10 complicated as this, lightly. We were therefore not  
11 physically ready. I hope I am mentally prepared. I  
12 think I am.

13 We didn't have it completed till last night.  
14 I therefore put it at your disposal, Mr. Chairman, as to  
15 whether you and the members of the Commission wish me to  
16 read it. I have a fairly strong voice and can read fairly  
17 quickly, or if you wish to have me make a summary on the  
18 basis of which perhaps we could then have questions,  
19 whichever you think is the preferable way to proceed.

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D/MR/dpw 1 I understand, too, that it has been the practice of the  
2 Commission, by virtue of the fact that they have had  
3 the brief submitted and studied in advance of the actual  
4 hearing, to perhaps pose questions on that study.

5 If I may do so, without in any way suggesting  
6 that the Commission is not perfectly competent to pose  
7 questions, I would like to take this opportunity to  
8 suggest that if you feel, sir, that it would be preferable  
9 to pose questions later, or additional questions later,  
10 if this is agreeable to you I would be very happy to  
11 receive them, and make comments or replies by way of  
12 correspondence, if you think that is an appropriate proce-  
13 dure. I do not mean, of course, in any way to suggest  
14 I am not prepared to answer any such questions you may  
15 direct to me now. Therefore, I am prepared to proceed  
16 in any way you deem appropriate.

17 THE CHAIRMAN: Thank you. I would estimate that  
18 a straight reading of 20 pages would take something like  
19 half-an-hour, about a minute-and-a-half a page, probably.  
20 Now, it seems to me that the subjects here would allow  
21 us to cope with this part by part, without reading, and  
22 deal with subsequent parts as they come up, each one  
23 comes up.

24 I think, subject to the views of my colleagues  
25 here, if you would be so kind as to take one part of it,  
26 speak to it, and we will keep our eye on the written part  
27 as you speak to it, and then will probably direct questions  
28 to you before we move on to the next part. Does that  
29 appeal to you as a sensible way to go about it?

30 MR. FULTON: Yes.





D2 1 THE CHAIRMAN: Don't stand unless you wish to  
2 do so. We try to be as reasonably informal as we can,  
3 consistent with getting through the job.

4 MR. FULTON: Mr. Chairman, before I begin may  
5 I direct your attention, please, to the fact there are  
6 some corrections and additions to be made in the brief  
7 as submitted. These have been inserted in the copies  
8 which are before you. I am not certain that they have  
9 been inserted in the copies available to the press. I  
10 would like to draw your attention to them as I come to  
11 the passages in question.

12 There is, however, in addition, a correction  
13 which has not been incorporated in the brief, and it is  
14 an important correction. The error results from a  
15 combination of haste and over-enthusiasm.

16 It is found in paragraph 46 and I would be  
17 particularly grateful if the press would note it, because  
18 otherwise it is quite a serious error if it is allowed  
19 to stand.

20 In the second sentence, as printed, it reads:

21 "Unless specifically exempted, roads,  
22 bridges, power projects and especially  
23 schools and hospitals will all cost more."

24 I would request that the reference or the  
25 passage to "especially schools and hospitals" be deleted  
26 because the exemption from sales tax on schools and  
27 hospitals has been restored.

28 THE CHAIRMAN: Very good.

29 MR. FULTON: Mr. Chairman, members of the  
30 Commission, in accordance with your suggestion, I will



D3

1 pass very rapidly over the introductory passages found  
2 on pages 1, 2, to 6, respectively, except that I should  
3 like to repeat my appreciation to the members of the  
4 Commission for giving us this hearing at such short  
5 notice.

6 I should also like to draw attention to what I  
7 have said in the brief, that I would not be here were it  
8 not for the fact that the Government of the Province  
9 declined the invitation of the Commission to make a sub-  
10 mission.

11 I frankly confess that it is only natural the  
12 Government of the Province has very much greater resources  
13 in terms of statistical and advisory experts than is  
14 available to a person in my position. I hesitated, some-  
15 what, therefore, as to whether I should make a submission  
16 at all. I have decided to do so, because as I point out  
17 I think it would be a pity if the Commission were to  
18 leave the province without an expression of opinion from  
19 somebody speaking on behalf of the general public of this  
20 province with respect to the problems as they exist in  
21 this province.

22 THE CHAIRMAN: I think I might interrupt to say  
23 we appreciate tremendously the sense of civic responsibility  
24 which moves you, and your colleagues to come forward at  
25 this time. I am quite conscious of the burden that you  
26 have taken on in trying to do this task within a few days.

27 Most people have had months to consider what  
28 they are going to put before us, and apparently they  
29 require most of that time. You have done very well; indeed.

30 MR. FULTON: Thank you, Mr. Chairman. Perhaps  
I could



D4 1 pass to page 2, where I have outlined the general proposals  
2 and principles, and I think, if I may amend my own sugges-  
3 ted course, it might be helpful if I read these pages.  
4 They set out the basic approach that we have and specific  
5 proposals could perhaps be better left to a detailed  
6 examination by the Commission and I will attempt to skip  
7 over the specific proposals, if that is agreeable.

8 THE CHAIRMAN: Very well.

9 MR. FULTON: I think this is the nub of my  
10 submission. (Reads Part II of brief)

11 In effect, Mr. Chairman, and members of the  
12 Commission, what I am saying, not in total, but an impor-  
13 tant part of what I am saying is that certainly in theory  
14 it would be desirable if there could be a single occupancy of  
15 the tax field. Perhaps the Federal Government, by agreement,  
16 could say we will confine our activity to field X, and  
17 you, the province, confine your activity to field Y.

18 I feel - and I am not backing away from that -  
19 but I think theoretically that is very desirable, but in  
20 practice I doubt very much if it will come, at least for  
21 many years to come, so that we have to address ourselves  
22 to the present, and I believe the long-term continuing  
23 situation, to that extent.

24 In other words, to the extent, then, that there  
25 must be, or will be, joint occupancy I believe that there  
26 could be very little savings advantage, not only with  
27 respect to the treasuries, but to the taxpayer. Where  
28 there is uniformity of administration and a common tax  
29 base and a single agency for collection, whether that  
30 agency be the Federal or the Provincial Government, and,



D5 1 as I say, under a specific recommendation, with respect  
2 to sales tax especially, it could be applied, and in my  
3 own view, since the majority of the provinces are now  
4 in the field of direct sales tax, the Federal Government  
5 is not, then my recommendation would be the federal  
6 sales tax be transformed to a direct tax which might  
7 well be found to be more efficient and more sensible.  
8 If the provinces collect federal taxes and remit them to  
9 them, this would be a matter of political difficulty, I  
10 appreciate, but would follow - I remember it was  
11 established in 1961 with respect to the income tax.

12 THE CHAIRMAN: May we comment on this point?

13 MR. FULTON: Yes, sir.

14 THE CHAIRMAN: Before asking questions, there  
15 is a statement here that I think I should not let pass  
16 without saying something to it:

17 "The Government of British Columbia has so  
18 far rejected the request of this Commission  
19 to set up a tax study committee to work with  
20 this Commission."

21 The Government of B.C. has received no specific  
22 request from this Commission formally asking it to do that,  
23 but in common with all the Premiers, I have discussed  
24 the matter with the Premier of British Columbia. I have  
25 informed him that I hoped he believed such a Committee  
26 would be useful to the province, as I believe it would  
27 be to us and he has not seen fit to do so. I don't think  
28 I am varying your statement very much, but I thought I  
29 ought to make it clear.

30 MR. FULTON: I appreciate that, Mr. Chairman.





D6 1 I wish to be accurate. I accept gladly any - shall I  
2 call it, variation - correction that you have. As you  
3 said, it is not very substantially different.

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E/PB/3pm

COMMISSIONER WALLS: In view of your recommenda-

tion that the provincial and federal tax wherever possible  
be combined under one authority, in dealing with sales  
tax you have also stated that you believe hidden tax  
is deceitful. I therefore assume if there were a  
combined tax you would favour that it be a combined tax  
on the retail level?

MR. FULTON: Yes, Mr. Walls; unless there was  
a constitutional change the provinces wouldn't be able  
to go into indirect taxes. It would be necessary and  
desirable for the Federal Government to move to direct tax  
which is already within the constitutional authority.

THE CHAIRMAN: It has probably occurred to you  
that there are difficulties in provinces collecting taxes  
on goods that move into another province. Would this be  
overcome if the provinces continued to collect those  
themselves or - would it be neces-  
sary to have the tax collected by the Federal Government  
to remove this difficulty?

MR. FULTON: As I understand it, at the present  
time - I want to be sure I understand your question -  
no province can or does apply a tax on goods purchased  
in any other province except in respect, for instance,  
of car registration, like a motor vehicle. I would think  
it wouldn't be desirable that there should be any movement  
to tax in one province goods bought in another, no further  
movement towards that, and therefore it wouldn't be part  
of my recommendations.

I don't know that the Federal Government -  
certainly without further consideration I wouldn't



E2 1 recommend the Federal Government should collect taxes  
2 for provinces on goods purchased in other provinces.

3 THE CHAIRMAN: I believe provincial sales tax  
4 requires tax to be paid on goods brought into the province  
5 and purchased by the residents of that province whether  
6 or not those goods are purchased within the province. It  
7 is true it is easy to collect tax on registered articles  
8 and it is difficult to collect on others. I don't think  
9 the law varies between the two. I think they are both  
10 liable. I have been told there are very substantial  
11 losses to provinces' sales tax because of this. If that  
12 is so, I would think the way to cure it is to have a  
13 central collection agency for the whole country.

14 MR. FULTON: I think this might form part of a  
15 study which I am certain the Commission will give. I  
16 have some reservations, certainly, as to the question of  
17 whether the Federal Government should assist any one  
18 province in collecting or imposing taxes on goods  
19 purchased in another. I would want to know what are the  
20 different laws in each province at the present time in  
21 that regard, I think, before I would be competent to  
22 answer.

23 This matter - the question of the collection  
24 agency - which government should collect it would have  
25 to be discussed between the provinces and obviously have  
26 to be a matter of whether it was felt the most efficient  
27 method of doing that was that. This problem would have  
28 to be settled by study and agreement.

29 COMMISSIONER GRANT: I think it has been a  
30 matter of discussion at the meeting of the Premiers



E3 1 of the provinces which is an institution which began, I  
2 think, two years ago.

3 MR. FULTON: Yes.

4 COMMISSIONER GRANT: While each provincial  
5 sales tax probably contains provision that goods  
6 purchased to be brought into the province would be subject  
7 to tax, to the tax which that province imposes, it becomes  
8 a matter of enforcing that provision which can only be  
9 done with the co-operation of the other province. I  
10 have the idea that that co-operation may be forthcoming  
11 once a uniform retail sales tax is put into operation.

12 The difficulty of one province collecting a  
13 tax and remitting it to another province for goods  
14 purchased in the first province to be shipped into the  
15 second province. - one of the main difficulties -  
16 is the fact that the tax rate, any particular rate, -and  
17 the types of goods which it covers, vary.

18 MR. FULTON: There would have to be uniformity.  
19 I have been reflecting, Mr. Chairman, on the question  
20 and I would hesitate very much indeed to see the  
21 Federal Government get into the position - supposing  
22 the agreement was the Federal Government should collect  
23 it - get into the position that every time somebody went  
24 to a counter to make a purchase he had to be questioned,  
25 "Are you from this province?" or that one, or the other.  
26 He is obviously going to a province where there is a lower  
27 rate of tax for this inference to be made. You would  
28 have to find out where he came from. I think it would  
29 be better to leave the situation as it is. I don't think  
30 it falls basically to the single agency collection





21 principle.

2 THE CHAIRMAN: Thank you very much. Mr. Fulton,  
3 you are in a unique position to be able to form an opinion  
4 as to whether or not your proposals come within the terms  
5 of this Commission. I am wondering whether you have not,  
6 in fact, taken us beyond our terms of reference or  
7 endeavoured to do so in one or two matters put forward here  
8 such as your reference to re-allocation of revenues and  
9 revenue sources, where you refer to single occupancy  
10 approach. I think we must form our own opinion on  
11 these matters, but I am a little doubtful as to the length  
12 we can go in this under the terms  
13 of reference. Have you considered this matter at all?

14 MR. FULTON: Yes, Mr. Chairman. I think that  
15 I must confess at points I have, perhaps, fallen over  
16 the edge a little bit with respect to the restrictions  
17 of the terms of reference. In some cases, I point out  
18 I am getting outside the field and withdraw back into  
19 it. It seemed to me it wouldn't be as meaningful to the  
20 Commission if one were to make submissions that kept  
21 strictly within the bounds as the ones I have made  
22 because it does seem to me that in reaching your conclu-  
23 sions, while complete respect must be had for the terms  
24 of reference, I felt, and I hope I wasn't wrong, and I  
25 hope I am not presumptuous, that the Commission would  
26 have in mind these kinds of things in reaching the  
27 recommendations it makes; those recommendations within  
28 its terms of reference.

29 THE CHAIRMAN: I am looking for assistance.  
30 It is not the easiest matter to draw a fence around.



E5 1 It is not an undertaking which is precise and clear.

2 MR. FULTON: I did at one stage, sir, consider  
3 putting in the brief a recommendation to the Commission  
4 that some study be made of the question of the economical  
5 desirability or possibility of upper limit of taxation,  
6 because in my view, not only is it the duty of government  
7 to consider and study taxation methods so as to minimize  
8 any harmful effect, but also government must consider  
9 how far they can go in appropriating money that otherwise  
10 belongs to the taxpayer and how far they can go in  
11 conscience and how far they should go in terms of economic  
12 law.

13 I feel strongly that any taxation system or  
14 measure should be looked at also from their point of  
15 view and the communitive effect of the tax system should  
16 be looked at, too. I felt this would get outside the  
17 Commission's terms of reference and I deleted that portion.

18 THE CHAIRMAN: I regret very much you deleted  
19 it. I would have **liked** to have the opportunity of asking  
20 your views on it.

21 MR. FULTON: I hope I have indicated it by the  
22 terms I have spoken. I think it is the duty of govern-  
23 ment to make certain it doesn't go beyond what is  
24 morally or economically sound.

25 COMMISSIONER GRANT: Nothing that has been so  
26 far said breaches the terms of the constitution; you  
27 are strictly adhering to the direct tax field for the  
28 province and all tax fields for the Federal Government.

29 MR. FULTON: That is correct. As I say, it  
30 seems to me that the question as to whether constitutional



E6 1 re-allocation of responsibilities should be considered -  
2 that would be more appropriate for discussion in another  
3 forum or Commission. I felt it would probably not help  
4 to deal with the constitution as it exists now although I don't  
5 overlook the importance and growing attention being paid  
6 to constitutional re-allocation.

7 THE CHAIRMAN: Thank you very much, Mr. Fulton.  
8 I think perhaps we could move on.

9 MR. FULTON: Very good. Coming to the specific  
10 comments and proposals: the first one you will see is  
11 Tax-Sharing Agreements. I will pass over that portion  
12 where I refer to the position previously accepted by the  
13 Government of British Columbia except to refer to para-  
14 graph 22 where I say it is not my duty or obligation to  
15 defend any more than it is to criticize.

16 I do wish to put forward some points and  
17 suggestions to the Commission. The arrangement for which  
18 the precedent was set in 1961 - the agreement on income  
19 tax sets forth the precedent, in our view, for what can  
20 be done in terms of the estate tax and sales tax.

21 Then, with the competition for revenue yield  
22 from corporation and income tax - provinces demand  
23 greater shares - I want to deal with the principle I  
24 set forth in the beginning: I don't think it is going  
25 to be very helpful to anybody if you demand greater  
26 revenues without regard to any other level of government,  
27 without regard to other responsibilities at other levels  
28 of government.

29 What I do suggest is that instead of making a  
30 demand for greater shares, that we try, in each tax



E7 1 field, that we try to rationalize and devise a system  
2 where one government could move more extensively into  
3 that field while not abandoning the other, leaving more  
4 leeway for the other in the field.

5 I think of special importance in that is the  
6 sales tax field, where I think there is room, under the  
7 suggestions to transform from direct to indirect  
8 taxes without reduction of the federal agency of occupation  
9 and room for increased provincial share of occupancy  
10 without increased burden on the taxpayer.

11 Then, I make a comment with regard to the  
12 succession duty field. I think it is a retrograde step  
13 on the part of the Government of this province; faulty  
14 in conception, difficult in administration, and totally  
15 unnecessary to go back into the succession duty field.

16 THE CHAIRMAN: What paragraph are you at?

17 MR. FULTON: Paragraph 26. In my view there  
18 should be the same method in the estate tax field as in  
19 the income tax field, and as I have suggested, in the  
20 sales tax field, uniform tax base and single agency,  
21 single collection agency, and what British Columbia has  
22 done is not only unnecessary but retrogressive in the  
23 context of that suggestion.

24 COMMISSIONER GRANT: Mr. Fulton, on the  
25 estate tax angle, it has been suggested to us that if  
26 the Provincial Government is not satisfied with the  
27 amount which it receives from the estate tax as it is  
28 now being administered that there should be no reason why  
29 the Provincial Government should not fix its own rates  
30 which would vary from province to province, if the





B8 1 Federal Government remains as the sole agency to impose  
2 the tax.

3 MR. FULTON: Yes.

4 COMMISSIONER GRANT: You would agree with that?

5 MR. FULTON: I would, Mr. Grant. Indeed, I  
6 think I am safe in saying that is my suggestion also.  
7 It is certainly inherent in my suggestion. I suggest a  
8 review, and certainly not an abandonment; a review of the  
9 policies and constitution.

10 With regard to grants-in-aid, these are an  
11 ever-increasing burden on the federal treasury, in that  
12 direction, to the extent there could be greater leeway  
13 to the provinces as to the definition of the rate of taxes  
14 they impose.

15 The system I would ultimately like to see as  
16 long as we have joint occupancy of fields is a uniform  
17 basis of tax exemptions, et cetera, differences as to  
18 rates and single collection agency. It seems to me it means  
19 greater fiscal autonomy to the provinces, greater  
20 responsibility to the provinces, and would be quite  
21 compatible with the exercise of provincial and federal  
22 responsibilities.

23 I think, with regard to collateral grants,  
24 recognizing responsibility of the Federal Government  
25 to ensure that no province falls below a certain standard  
26 subject to that one reservation I think the method should  
27 be in the direction of rationalization of the occupancy  
28 of the existing tax fields. I think each level of govern-  
29 ment would carry out responsibilities and we should get  
30 as far away from what is rather a hodge-podge of grants



E9

1 and cost-sharing programs as possible.

2 THE CHAIRMAN: Where there is an overlapping  
3 of taxation legitimately under the provisions of our  
4 constitution as it now stands you would have no objec-  
5 tion to it?

6 MR. FULTON: No. I do say, advance the theory  
7 which I shall reiterate: it is desirable to have single  
8 occupancy but I recognize that is the counsel of perfec-  
9 tion and certainly isn't likely to come for a long time,  
10 so let's rationalize the present situation to the extent  
11 it would certainly minimize my objections to double  
12 occupancy if there was a uniform base of taxation and  
13 exemption and single agency collection.

14 THE CHAIRMAN: By another change of agency?

15 MR. FULTON: Yes. In my view, the Federal  
16 Government does the collecting and appropriate returns  
17 to show clearly which level is imposing what portion of  
18 the tax.

19 THE CHAIRMAN: Shall we move on, Mr. Fulton?

20 MR. FULTON: I think I have touched on my  
21 views with regard to the cost-sharing program, grants-  
22 in-aid, at paragraph 29.

23 "I am not advocating the abolition ---"

24 THE CHAIRMAN: Where are you?

25 MR. FULTON: The bottom of page 9, paragraph

26 28:

27 "I am not advocating the abolition of these  
28 programs. I wish to suggest to the Commission  
29 that these programs should be assessed on  
30 the basis of the responsibilities of each



1 level of government and that where  
2 responsibilities are determined, that the  
3 level of government responsible carry the  
4 program out. If this approach were  
5 followed, it might be found that the  
6 federal government would have no respon-  
7 sibility in the field of primary and  
8 secondary education, but would have an  
9 increasing obligation in the fields of  
10 higher education and vocational and  
11 technical training. Similarly, primary  
12 and secondary education might be found  
13 to be essentially a provincial responsi-  
14 bility and not that of municipalities.  
15 And, finally, were municipalities freed  
16 from a portion of the current burden of  
17 school costs, they might be able to get  
18 along quite nicely without the present  
19 level of federal and provincial cost-  
20 sharing and grant programs.

21 Then I come to the question of federal,  
22 provincial and municipal financial arrangements, which  
23 I point out may be strictly outside the terms of  
24 reference. Again, I don't think any study of the tax  
25 system could be complete without some reference to this  
26 very present problem. Urgency of the program has been  
27 recognized at the federal level, both in the past and  
28 the very recent past, by the undertaking of the proposal  
29 of the Municipal Development Loan Fund.  
30



f/MR/dpw

I point out the restrictions on the municipal tax sources, and incidentally, there is one passage I want to modify. The end of paragraph 32, on page 11, where I say:

"Yet as creatures of the provinces they are restricted in any event, for their revenues, for these and all their other continuing responsibilities, to the already narrow tax fields allocated to the provinces and in the bulk of the country are further restricted by provincial legislation to the single field of a tax on land."

I would like to, if I may, put in a formal written addendum, or correction, which would point out that while I recognize that in most cases they are entitled to both business licence, business taxes, it would, therefore, be more accurate to say restricted for their major, if not their exclusive revenue to a tax on land. I am not strictly correct when I say they are restricted to the single field.

THE CHAIRMAN: We might add the words at the end of that sentence: "...for their major sources of revenue."

MR. FULTON: We have to deal with the fact that there are in most provinces, and certainly in this one, a system of grants to the municipalities which have grown up along the same line, and for the same reason as the federal-provincial cost sharing and grants-in-aid program have grown up and I question whether in any





1 province, and particularly in this province the assistance,  
2 the grant to municipalities is adequate or fair and I  
3 think this is a matter for dissertation by the Provincial  
4 Government rather than for elaboration before this Commis-  
5 sion.

6 I have pointed out that the present burden on  
7 the municipalities is the greatest pressure on municipali-  
8 ties, with respect to the increase in cost of primary  
9 and secondary education, and that if the desirable objec-  
10 tive is for the provinces to assume a total cost of  
11 primary and secondary education, on an approved standard  
12 basis, and that the provinces have to assume in excess  
13 of 75% based on existing revenue without some necessary  
14 adjustment within the whole system of municipal grants,

15 if this were done, and especially as we move  
16 towards 100%, this would be greatly facilitated by  
17 greater elbow room for the provinces in the sales tax  
18 field which I submit is inherent in the proposals I have  
19 made with respect to federal sales tax system.

20 THE CHAIRMAN: We have, I might add, Mr. Fulton,  
21 been fairly liberal in listening to representations from  
22 municipalities on the matter of educational costs, and  
23 their need for more revenues. They have endeavoured to  
24 point to the responsibility that the Federal Government has  
25 rather than the Provincial in this matter, but I do not  
26 think we need to debate that at the present time.

27 MR. FULTON: Well, sir, I do have a passage in  
28 which - well, in paragraph 37 I point out that such a  
29 move would require the active co-operation of the Federal  
30 Government, in the tax discussion, because this proposal



F3 I make would greatly and immediately relieve the municipal  
2 pality of the burden of the property tax with regard to the  
3 burden of taxes on property to pay school costs and should  
4 certainly result, if not permanently, in a substantial  
5 reduction of municipal tax rates, and to this extent  
6 would represent a windfall to the Federal Government in  
7 terms of increased corporation taxes, because of the  
8 lower tax on property paid by corporate taxpayers and  
9 this is something that I know if I were the Government  
10 of British Columbia I would take account of and want to  
11 go to Ottawa and make certain that Ottawa recognized  
12 that we are entitled to some leeway, some additional  
13 leeway in present tax fields, and I say here that we are  
14 entitled - I would expect we would have an adjustment  
15 made in overall returns from Ottawa of our share of what-  
16 ever tax-sharing agreement is then in force.

17 THE CHAIRMAN: You are apparently fairly convinced  
18 that properties are very heavily taxed. We have heard  
19 this a number of times. It seems to be the popular view.  
20 We sought evidence from people who have appeared as to  
21 why they concluded that properties were heavily taxed.  
22 We haven't had much success in securing evidence.

23 We have been told casually that people have  
24 occasionally had to leave their homes. I don't think  
25 that it has been noted that tax sales, for collection of  
26 property taxes, have increased.

27 MR. FULTON: I would hope not, Mr. Chairman,  
28 because I certainly hope that it has not got to the point  
29 people are being driven out of their homes.

30 I do suggest to you a reasonable assessment;



F4 1 that people will go to great lengths to preserve their  
2 homes so that I suggest, with respect, that the lack of  
3 increase in tax sales is not an absolute standard by  
4 which to judge the incidence of whether property taxes  
5 are burdensome.

6 We are making the study of this whole question  
7 of the municipal-provincial tax structure and the inci-  
8 dence of property tax collections, for our purpose as a  
9 prospective Provincial Government.

10 We have not reached our conclusions, but I  
11 would be very glad to send them to the Commission if you  
12 think it would be helpful in this connection.

13 THE CHAIRMAN: I think it would be extremely  
14 helpful. I think we know that people have trouble paying  
15 the income tax, and other forms of taxes, and it is not  
16 property that pays taxes, as it has been pointed out to  
17 us; the people that own the properties pay taxes, and  
18 those are the sort of things we like to know.

19 MR. FULTON: In that respect, I don't have any  
20 hesitation in stating that the ownership of property  
21 seems to be no longer a measure of the capability of the  
22 person to pay taxes. It seems to me it is primarily  
23 measured by his income and particularly now we have so much at  
24 the present time, anyway, in this province, we have so  
25 much of social services, including considerable education,  
26 being charged on property. I say the cost of providing  
27 those services is not equitably distributed because  
28 municipalities are proving that they, and so are all  
29 school districts, as Mr. Walls well knows, very limited,  
30 at least in what they feel is comparable and yet persons



F5 1 who own property are compelled to pay large taxes without  
2 regard to whether they are earning, and can earn, a substan-  
3 tial income either from those properties or receive a  
4 substantial income from any other sources. This, I think,  
5 is demonstrably inequitable in the land tax, at least when  
6 it is driven up to the point that it is now reaching, if  
7 in fact it has not reached.

8           The agricultural economy in this province  
9 completely - I don't minimize the burden on the munici-  
10 pality - I am thinking of one particular sector of the  
11 economy and as Mr. Walls knows, the agricultural sector  
12 of the economy is suffering in this respect right now.

13           THE CHAIRMAN: We would be very glad to see any  
14 evidence you might have.

15           MR. FULTON: And then on this point I make a  
16 reference to the recognition by the Federal Government  
17 of the present problem and the situation in the munici-  
18 pality in financing development projects which they  
19 obviously have taken out of current taxation, so it is  
20 necessary for them, perhaps to a greater extent than  
21 other levels of government, to finance them. The  
22 Federal Government has given recognition to this problem  
23 in its proposal for a municipal development loan fund.  
24 I am sincere entirely in what I say in the brief with  
25 respect to the motive with which that proposal has been  
26 introduced. It is referred to on page 13 and 14 and I  
27 do suggest that we should look to see if better ways  
28 might not be found because there are objections which  
29 have already been taken to this proposal. I think it is  
30 a potential objection in that it seems to be an involved



1 cost to the taxpayers and in my respectful submission  
2 I think perhaps the Commission might consider whether  
3 there couldn't be other methods, more direct, more  
4 economical, found by way of tax incentives, tax conces-  
5 sions on municipal bond issues.

6 We recognize that the Investment Dealers'  
7 Association has already, in another Commission, expressed  
8 reservation. I would like to see a study made of it  
9 because I think there are real potential advantages and,  
10 secondly, for the provincial guarantee system and I think  
11 in either one, or a combination of those theories, we  
12 might be able to assist municipalities to finance  
13 more efficiently and at much lower cost than under the  
14 loan fund proposal.

15 Again, I repeat, I respect the motives with  
16 which that proposal is advanced. I have some reasons,  
17 if the Commission wishes why I would like to see a study  
18 made of the tax incentives method as with respect to  
19 municipal financing, municipal borrowing, but I will not  
20 refer to them here unless the Commission wishes to  
21 question me on them.

22 Then coming to the question of the sales tax  
23 I think that in general I have covered what is said  
24 here specifically, transforming of the Federal Government  
25 from indirect to direct application at the retail level -  
26 while I recognize again the difficulties of the politi-  
27 cian, and I number myself among them, I am not condemning  
28 my brethren - I do say we should have if at all possible  
29 a look at the question of whether we have not gone far  
30 enough, and not too far in the direction of hidden taxes



F7 1 and advice from this Commission would be most helpful to  
2 the politicians, sir, as well as to the public generally.

3 And then I report what I believe to be the  
4 advantages of this transformation in terms of savings  
5 to the consumer, preservation of the level of revenue  
6 to the taxing authority and yet ability to reduce the  
7 rate, and then concurrently, with a number of other  
8 proposals, the possibility of greater leeway being  
9 available to the province in the field of sales taxes.

10 There are a number of restrictions that I  
11 would like to give. It is particularly onerous to this  
12 province that there should be removed the exemption  
13 from sales tax on production machinery and building  
14 materials.

15 This province relies extensively on the  
16 processing, primary production and processing industry,  
17 so that in effect we pay two new taxes. Every owner of  
18 a mill, say a lumber mill, who puts in that business  
19 machinery has to pay the tax on that machinery. That  
20 enters for the first time into his cost of production;  
21 increases the price of the goods that he produces in  
22 his mill and then charges tax, the 11% tax, on the lumber  
23 when it goes out of his mill.

24 The lumber in British Columbia is subject -  
25 I think I am fair in saying this - is subject in effect  
26 twice to the Federal Government by removal of this exemp-  
27 tion. I do not think there is any province whose economy  
28 is more directly and adversely affected by this measure  
29 than British Columbia and, again, it has surprised me  
30 greatly that the Government of this province is not here



1 telling this Commission so.

2 I suggest in the brief not only the restoration  
3 of the exemption, because of its effect in British  
4 Columbia, but on general economic grounds, one of which  
5 is the illustration I give with respect to the absurdity  
6 of putting the sales tax on this kind of machinery or  
7 equipment which continues into the cost.

8 The province must pay for building of roads  
9 in the municipalities - every road, for instance, and  
10 some other provincial-municipal services and to the  
11 extent that costs are shared by the Federal Government,  
12 as is of course the case in the Trans-Canada Highway,  
13 and it may well be in highway construction for years to  
14 come, perhaps increasingly, 90% of the cost of the Trans-  
15 Canada Highway being paid by the Federal Government.

16 The increased cost, then, is reflected on the  
17 Federal Treasury. Then the Federal Treasury can only  
18 raise that money through taxes. You get an absurd posi-  
19 tion; a government that has imposed one tax has to put on  
20 other taxes to raise the revenue to pay the taxes and  
21 this is really the kind of absurdity you get into with  
22 this sales tax as we have it at the present time.

23 I have made that point in the addendum that  
24 I have, the second addendum that I submitted to the  
25 Commission.

26 I say, as I think I must say for logic and  
27 consistency, if I want to have the federal sales tax  
28 removed from production machinery and building materials,  
29 so, I think, should the provincial sales taxes although  
30 I recognize that there would be a loss of revenue in



F9 1 British Columbia.

2 I pointed out in paragraph 49 how this loss  
3 of revenue would be, I think, immediately and fully  
4 compensated for. That is the loss of revenue from this  
5 particular tax, how this would be immediately and fully  
6 compensated for in other ways as a result of the proposals  
7 I am making.

8 THE CHAIRMAN: May we ask a question at this  
9 point?

10 MR. FULTON: Yes.

11 THE CHAIRMAN: Mr. Fulton, we pay sales taxes  
12 on most of our purchases, other than food. Why should we  
13 not pay sales taxes on our dwellings? I presume you  
14 wish them exempt, from what you say here?

15 MR. FULTON: Do you mean, sir, that when a  
16 person buys a house from another?

17 THE CHAIRMAN: Building a house, I was thinking  
18 of.

19 COMMISSIONER GRANT: Materials that go into  
20 the building.

21 MR. FULTON: It is a matter of how far the  
22 sales taxes should go. That is all.

23 THE CHAIRMAN: What justification is there for  
24 the exemption of it?

25 MR. FULTON: Because the sales tax on a house  
26 hits the homeowner enormously.

27 THE CHAIRMAN: Sales taxes on clothes hits the  
28 clothes wearer.

29 MR. FULTON: Children's clothes are exempt.

30 THE CHAIRMAN: Adults are not.





FIG 1 MR. FULTON: Adults are not, no. Well, sir,  
2 isn't it a matter of again a study of what is economically  
3 the sensible thing to do? We are, on the other hand,  
4 encouraging, and I think rightly - the Federal Government  
5 is encouraging the building and ownership of homes. I  
6 think this is a healthy trend but I think it would be  
7 absurd then if I went in to the extent they are for loans  
8 programs, and with respect to public housing subsidy  
9 programs, assisted by treasury cost in the construction  
10 of homes. It would be, in my view, an absurdity - it  
11 would be illogical to turn around and tax that same  
12 thing.

13 THE CHAIRMAN: Thank you for your opinion.

14 MR. FULTON: That is one reason I can advance.  
15 There are a number of others. I have a special passage,  
16 sir, with respect to logging tax. It is a technical  
17 matter and I would just direct your attention to the  
18 paragraph by number. This is in paragraph 50, and then  
19 on page 19, paragraph 51, I discuss the question of  
20 provincial tax incentives and economic development and  
21 I recommend quite seriously and respectfully that this  
22 Commission consider this matter and make a recommendation  
23 or report an opinion on the extent to which tax incentives  
24 are of assistance yet may be used to encourage not only  
25 national but provincial development. Provinces, after  
26 all, are part of the nation. That is my firm view, sir.

27 Then, at the end of paragraph 54, I summarize  
28 again in context what I have said previously, the basic  
29 approach upon which this submission is given.





PB/dpw 1 COMMISSIONER WALLS: The Federal Government  
2 is sales  
3 at the present time/collecting their own/taxes from their  
4 this a  
5 own departments' purchases/causes/false idea of revenue  
6 and false idea of expenditure, don't you think?

7 MR. FULTON: I think this is quite arguable,  
8 Mr. Walls, yes.

9 THE CHAIRMAN: It is a matter of bookkeeping,  
10 isn't it?

11 MR. FULTON: Well, Mr. Chairman, I am not an  
12 economic expert. I couldn't overlook your comment. It  
13 has always seemed to me, although I have never been  
14 convinced or had a judgment of the Department of Finance  
15 officials - I don't know, perhaps the officials - when  
16 in opposition any more than in government, any more than  
17 budgets are indicative of expenses. There is a direct  
18 relationship in this field; in your forecast of expendi-  
19 tures, you are including items that you yourself in your  
20 budget rates are going to affect. To that extent, it  
21 seems to me you go beyond bookkeeping.

22 THE CHAIRMAN: When I say bookkeeping I mean  
23 it is a method of recording what is actually occurring.  
24 I think you are saying the same thing, really. You can  
25 understand it better and appreciate it better and serve  
26 the purpose that you are seeking to serve.

27 MR. FULTON: I think implicit in Mr. Walls'  
28 recommendation is that the tax should not be levied on  
29 the Federal Government's purchases - unless that change  
30 was made there would be a reduction in federal spending.

31 THE CHAIRMAN: I think I was disagreeing with  
32 Mr. Walls.



G2 1 COMMISSIONER WALLS: Let me disagree with both  
2 of you. Mr. Walls didn't make any recommendation whatso-  
3 ever, and doesn't expect to for at least a year.

4 COMMISSIONER GRANT: Let me say I think the  
5 whole matter is taken care of in Section 125 of the  
6 B.N.A. Act. It says no lands or property belonging to  
7 Canada or any province shall be liable to taxation.  
8 Doesn't property include... personal property in that sense?

9 THE CHAIRMAN: We are talking about tax within  
10 the same government.

11 MR. FULTON: The question was raised as to  
12 whether it was fair that the Federal Government should  
13 tax. Then you came back with the question of the Federal  
14 Government.

15 COMMISSIONER WALLS: That is right.

16 MR. FULTON: In answer to your question, Mr.  
17 Grant, no lands or property of Canada or a province  
18 shall be taxed - isn't sales tax, although at the federal  
19 level, indirect tax - a tax on property - if it becomes  
20 property of the Government, a tax upon the manufacturer.  
21 It would be arguable. I don't speak as an expert, but  
22 the federal sales tax paid is not a tax on the property  
23 of the province but is a tax paid by the manufacturer  
24 when he sells the article to the province.

25 COMMISSIONER GRANT: Would that tax be **rebated**  
26 after it is sold?

27 MR. FULTON: Yes.

28 THE CHAIRMAN: At the moment I think we are  
29 prepared to accept your opinion on that. Thank you.

30 MR. FULTON: Very accommodating, Mr. Chairman.





1 I wish all courts were equally indulgent.

2 THE CHAIRMAN: I think we had better stop here.

3 I am indeed sorry we didn't have half a day or even a  
4 full day to do justice to the thought and effort that  
5 has gone into your brief. It has been very stimulating  
6 for us, indeed. I just hope if you have anything more  
7 to say that circumstances will take you to Ottawa where  
8 I am sure we can arrange to proceed further, in view of  
9 the fact we have done this so very cursorily. Many  
10 thanks to you, indeed. We are very grateful for your  
11 effort. I can assure you that we will read it more  
12 carefully because we virtually scanned it up to now.  
13 Thank you very much, indeed.

14 MR. FULTON: I, in turn, thank you and your  
15 colleagues for the privilege of being allowed on such  
16 short notice to appear and thank you for the courteous  
17 hearing you have given us.

18 THE CHAIRMAN: We will stand over for about  
19 three minutes.

20  
21 --- Short Recess  
22

23 THE SECRETARY: Mr. Chairman, the next submission  
24 is being presented by The Heavy Construction Association of  
25 British Columbia. Mr. Gordon R. Hodson, General Manager,  
26 will speak to the brief. He has associated with him Mr.  
27 W.B. Laurie, the Secretary-Treasurer, and Mr. C.S. Soder-  
28 ling, member of the committee, and Mr. J.W. Hanchard,  
29 administrative assistant to the General Manager. I would  
30 like to enter the brief into the record as Exhibit 145.



G4 1 THE CHAIRMAN: Are we going to get the names  
2 again? If not, we'd better have them spelled.

3 THE SECRETARY: Well, perhaps the witness will  
4 identify them. There is Mr. Hodson, General Manager.  
5 Mr. L-a-u-r-i-e and Mr. S-o-d-e-r-l-i-n-g and Mr.  
6 Hanchard.

7 THE CHAIRMAN: We have already got that name.

8  
9 --- EXHIBIT NO. 145: Submission of The Heavy Construction  
10 Association of British Columbia.

11 SUBMISSION OF THE HEAVY CONSTRUCTION

12 ASSOCIATION OF BRITISH COLUMBIA.

13  
14 Appearances: Gordon R. Hodson  
15 J.W. Hanchard  
W.B. Laurie  
C.S. Soderling

16 THE CHAIRMAN: Mr. Hodson, are you Chairman  
17 of the submission?

18 MR. HODSON: I will open the presentation on  
19 behalf of the Association.

20 THE CHAIRMAN: We are glad to see you. We  
21 have read with interest your submission and we have some  
22 questions for you. I apologize for running a little bit  
23 late this morning. That doesn't mean we haven't enough  
24 time to deal with this completely and properly and we  
25 propose to do so. Before we start asking you questions  
26 have you anything you would like to point out to us?  
27 You told us something about your industry. Would you  
28 like to amplify that in any way? We would be glad to  
29 have you do it.

30 MR. HODSON: We would merely like to



1 emphasize our affiliation with the Canadian Construction  
2 Association and our support of their national policies  
3 on taxation. As an industry we can hardly oppose revenue-  
4 producing legislation because we, to a large degree,  
5 depend upon public works projects which are financed by  
6 public funds. However, we do feel there may be certain  
7 aspects of the present legislation which impose undue  
8 burden upon contractors in the heavy construction industry  
9 in relation to other taxpayers.

10 Perhaps we might refer to page 3 of our brief,  
11 beginning at page 3 of our brief, specifically to capital  
12 cost allowance. As you will have noted our brief proposes  
13 that capital cost allowance on contractors' equipment -  
14 we refer here largely to mobile equipment under Clause 10  
15 should be increased and we feel that the present rate of  
16 depreciation, which is 30%, is somewhat inadequate and  
17 should be increased to 40%. It was interesting to note  
18 yesterday that the submission of the Vancouver Board of  
19 Trade reported that the reply to the question on capital  
20 cost allowance, does any type of asset depreciate more  
21 rapidly than the maximum rate allowed for the group -  
22 the general consensus of industry in this province was  
23 to the effect that 20% replied in the affirmative and  
24 60% replied in the negative. However, a closer examination  
25 of Appendix A that the Vancouver Board of Trade submitted  
26 with their brief reveals that the heavy and light construc-  
27 tion group replies were 43% in the affirmative and 54%  
28 in the negative. Unfortunately, there was no distinction  
29 made by the Board of Trade in their questionnaire between  
30 heavy construction and light construction.



G6

1                   However, upon examination of the replies which  
2 we were permitted to look at by the Board of Trade we are  
3 led to believe that in the heavy construction group those  
4 replying to the brief in the affirmative were in the  
5 ratio of 84% to 16% of the negatives. It seems evident  
6 that the heavy construction contractors replying to this  
7 questionnaire support our contention that capital cost  
8 allowance should be increased.

9                   Examining the replies that were sent in we  
10 have reached the conclusion that the heavy construction  
11 people replying - there were approximately 13 companies -  
12 and I wish to reiterate this is something that couldn't  
13 be determined accurately, but Mr. Selman of the Board of  
14 Trade agreed this appeared to be as accurate as one might  
15 derive from the questionnaire: 48% of those replying felt  
16 that the increase of the capital cost allowance on  
17 construction equipment should be up to 50%. In our sub-  
18 mission we are proposing it should be 40%.

19                   Sixteen percent of those 13 companies felt it  
20 should be in the range between 25 and 35 percent.

21                   THE CHAIRMAN: What percentage felt that?

22                   MR. HODSON: Sixteen percent thought it should  
23 be between the 25 and 35 percent range, which seems to be  
24 somewhere on the nose of the existing 30%. The second  
25 fact is 48% felt it should be 50% capital cost allowance  
26 and 8% felt it should be between 50% and 100% and another  
27 8% felt it should be 100%.

28                   THE CHAIRMAN: I haven't got that. I have 48%  
29 and 16%. From there --?

30                   MR. HODSON: I repeat: 16% felt the rate should





G7 1 be 25 to 35 percent; 48% felt it should be 50%; 8% felt  
2 it should be above 50 and below 100 percent, and 8% felt  
3 that it should be the even 100%. We cite this merely  
4 in support of our contention that the rate of capital  
5 cost allowance, in view of the rapid rate of obsolescence  
6 of contractors' mobile equipment, should be increased to  
7 40%. We held to the 40% figure as being realistic.  
8 We do also feel, with regard to the capital cost allowance,  
9 Mr. Chairman, where the contractors' mobile equipment is  
10 subject to intensive wear and increased obsolescence or  
11 depreciation results, such as on multi-shift operations,  
12 there should be some leeway for the contractor to rate  
13 that equipment up on his capital cost allowance on an  
14 accelerated rate, because it is reasonable to assume  
15 that under such circumstances the contractors' equipment  
16 will depreciate much more rapidly by reason of long and  
17 harder usage on the multi-shift operations.

18 We suggest no specific figure there, but we  
19 feel it should be proportionate to the additional time  
20 that the equipment is exposed to additional wear in rela-  
21 tion to normal single-shift operations.

22 THE CHAIRMAN: Assuming that, it would be  
23 subject to recapture, I presume, upon sale of the equip-  
24 ment?

25 MR. HODSON: Yes. If there are no further  
26 questions on that section, Mr. Chairman, we shall proceed  
27 to ---

28 THE CHAIRMAN: I would be concerned that the  
29 accelerated depreciation which at one time, possibly  
30 during wartime, was part of the regular law, would give



Q8

1 an unnecessary amount of difficulty for the ends to be  
2 accomplished. I seem to remember that at one time these  
3 two-shift and three-shift operations - and they were  
4 rather difficult to support and establish - it may well  
5 be that this wouldn't be difficult and could well be  
6 justified. I don't know.

7 COMMISSIONER MILNE: I have a question on this  
8 particular point: on the multi-shift operations, the  
9 present rates of depreciation allow for a full year and  
10 I would imagine that equipment isn't subjected to 12 months'  
11 use under normal conditions, but under multi-shift  
12 operations would it have more than a year's usage?

13 MR. HODSON: Well, I think in our industry,  
14 Mrs. Milne, we regard the normal operating season as a  
15 full year's operation on equipment and I do also believe  
16 this was taken into consideration when the rate of depre-  
17 ciation for this class of equipment was established,  
18 so that we would now regard a normal year of operation  
19 as being within the confines of the construction season,  
20 although technical advances, as you will appreciate, now  
21 have extended the length of the construction season and  
22 in a good number of areas and in certain types of work  
23 it does encompass the whole 12 months period. By this  
24 multi-shift operation it would mean that the equipment  
25 is depreciated or rendered obsolete within a much shorter  
26 period of time than under normal operations.

27 COMMISSIONER MILNE: I may be wrong on this  
28 score, but I felt that somehow at the time that these  
29 rates were evaluated that 60% use was considered the  
equivalent of a year's operation. Do you think that



G9 1 percentage would hold? Actually, what I am asking you  
2 is: do you think your machinery receives more than 60%  
3 usage in a year on the multi-shift basis?

4 MR. HODSON: Oh, yes; on a multi-shift basis.

5 COMMISSIONER MILNE: That is really what I  
6 meant to ask.

7 MR. HODSON: Yes.

8 THE CHAIRMAN: Mrs. Milne meant calendar year;  
9 I suppose, a full year.

10 MR. HODSON: Yes.

11 THE CHAIRMAN: Do you still say yes?

12 MR. HODSON: Yes.

13 THE CHAIRMAN: You spoke about the rugged terrain  
14 of B.C. but what you ask is intended to apply not just to  
15 B.C.

16 MR. HODSON: That is correct. The same rule  
17 would hold in other areas of Canada where they have  
18 varying conditions affecting the obsolescence and depre-  
19 ciation.

20 COMMISSIONER GRANT: I would like to ask Mr.  
21 Hodson a question. Perhaps it appears in some of the  
22 appendices, but I would have difficulty myself in deter-  
23 mining from the brief what constitutes a machine that  
24 would fall into the heavy industry class. This is the  
25 brief from The Heavy Construction Association - The Heavy  
26 Construction Association of British Columbia. This plea  
27 you are making at the present time is that certain machines  
28 be allowed a higher depreciation - write-off - than is  
29 now permitted. If we are to give this brief the consi-  
30 deration which it deserves how are we to determine what



G10

1 machines fall within this class you are asking for the  
2 higher rate write-off, and who is to determine that?

3 MR. HODSON: Our brief refers specifically to  
4 Class 10, the equipment that is categorized under  
5 Class 10.

6 COMMISSIONER GRANT: At the present time under  
7 Class 10.

8 MR. HODSON: It is generally mobile equipment  
9 as opposed to stationary equipment of the production  
10 type.

11 THE CHAIRMAN: Class 10 be raised from 30 to  
12 40 percent?

13 MR. HODSON: That is right.

14 COMMISSIONER PERRY: Have you made representations  
15 on this to the Department of National Revenue?

16 MR. HODSON: Other than representations that  
17 are made through the National Association, the C.C.A.,  
18 we haven't made any nor really felt we had an opportunity  
19 to do so until today.

20 THE CHAIRMAN: Shall we move on to Completed  
21 Contract Method of Reporting Income?

22 MR. HODSON: At this point, Mr. Chairman, I  
23 would like to ask Mr. Soderling to outline our views on  
24 that.

25 MR. SODERLING: Mr. Chairman, in this particular  
26 section of our brief it is really a method of determining  
27 income, or the difficulty in determining income which is  
28 a problem. Possibly without exception, the determination  
29 of profit or losses on contract in heavy construction is  
30 one of the more difficult things to do in practically any





G111 industry, I would think.

2 The present taxation policy is as outlined in  
3 the brief. It doesn't give any leeway for problems that  
4 arise in mobilization costs; in some cases, unbalanced  
5 bid - the term is used in the industry - recognized.

6 In fact, in bidding contracts in the case of Department  
7 of Highways projects, it is completely forbidden.

8 Unfortunately, or fortunately, for the contrac-  
9 tor, at times, it is in the tender. If the contract does  
10 run over a 12-month period or even, in some cases, if it  
11 happens for a lesser period than 12 months, if the  
12 contract is commenced, say, three months prior to the  
13 fiscal period of a contractor, the profit or loss posi-  
14 tion of that particular contract, after the three months  
15 period, of course, is not indicative of what the final  
16 outcome of the contract might be.

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H/NR/dp1 That is basically the items covered in paragraph 24.

2 In paragraph 25, it is a well-known fact that  
3 engineers are reluctant to pay as much for the work as  
4 possibly might be paid. On the other hand, naturally  
5 the contractor wants to receive payment for as much as  
6 possible in order to assist financing the contracts so  
7 there is always a certain amount of hold-back in addition  
8 to the normal 15% or 10% of hold-back. There is always  
9 a possibility of monies being withheld by an owner for  
10 the lack of payment on quantities, or whatever measure-  
11 ment is used in paying the progress estimates.

12 Other than that, Mr. Chairman, I think the  
13 section is fairly well descriptive, and on that basis  
14 we feel that there is considerable merit in treating  
15 contracts with a period of completion existing at least  
16 12 months, being treated on a completed contract basis.  
17 This is, as you possibly are aware, Mr. Chairman, the  
18 case in the United States.

19 They do recognize this method and it is uniform,  
20 of course, in any one particular corporation or entity.

21 THE CHAIRMAN: You do not appear to distinguish  
22 between fixed price contracts and those which are carried  
23 out for a fee or a percentage. Wouldn't the latter group  
24 be properly brought into income as they progress?

25 MR. SODERLING: On a fixed price contract, Mr.  
26 Chairman?

27 THE CHAIRMAN: No, the latter group.

28 MR. SODERLING: Cost-plus or fee basis. Very  
29 definitely this is a very easy method to determine income,  
30 because of the cost-plus or fee basis. Unfortunately,



H2 1 these are not too frequently handled.

2 THE CHAIRMAN: Your section here is directed only  
3 at fixed-price contracts?

4 MR. SODERLING: Correct.

5 THE CHAIRMAN: Do you have any regard to the  
6 contract which may go for a very long period of time?  
7 Should there be any special treatment for a contract  
8 which runs over two years or over three years?

9 MR. SODERLING: No, I think the problem is  
10 inherent in any contract that really runs over the year  
11 end of the contractor's operations, the fiscal period  
12 for reporting income.

13 The problem is there in determining profit or  
14 loss to report for purposes of taxation.

15 THE CHAIRMAN: Thank you. Now, averaging of  
16 income for taxation purposes. I note that you believe  
17 that the income of contractors varies more than most  
18 industries and you think it might be treated in the same  
19 way as farmers and fishermen; and averaged. I wonder  
20 if, in fact, it does vary very much; more than most  
21 industries. Is there anything to support that?

22 MR. LAURIE: We do not have definite information  
23 on an Association basis. From personal experience I  
24 have had in association with the construction industry  
25 for the last 15 years I have seen vast fluctuations in  
26 profits and losses from year to year, not unlike the  
27 farmers and fishermen. The construction industry is  
28 more cyclamatic, depending on weather conditions and  
29 volume of work being called in a designated period and  
30 I personally believe that there is vast fluctuation



H3 1 between incomes from year to year and that the present  
2 loss carry-over and back provisions are not sufficiently  
3 wide to permit a contractor to properly measure his decade  
4 income, or life income, because of the taxation that he  
5 may be faced with in one year versus nominal taxation  
6 the following year and a period of loss which loses itself  
7 after five years, and that the averaging of income in  
8 such a highly competitive and risky business as this  
9 would seem very desirable.

10 THE CHAIRMAN: Why couldn't all business income  
11 be averaged?

12 MR. LAURIE: Very good question. I do believe  
13 there is stability in many of our industries which are  
14 looking for a fairly consistent return on capital invested  
15 from year to year, whereas ours are more competitive and  
16 more subject to the elements than a stable business.

17 COMMISSIONER GRANT: The elements would be the  
18 dominant consideration?

19 MR. LAURIE: Yes, sir, they are very dominant.

20 COMMISSIONER GRANT: Like farming and fishing?

21 MR. LAURIE: Yes, sir, they are. I believe  
22 there are certain cycles in fishing also which are  
23 dominant factors in their income.

24 THE CHAIRMAN: Contracting would be national  
25 economics more than anything else, would it not?

26 MR. LAURIE: Yes.

27 THE CHAIRMAN: Extension of the exemption for  
28 federal sales taxes. This has been altered. You wrote  
29 this following the budget, did you?

30 MR. HODSON: Yes, following the budget proposal.





H4 1 Since the resolution has now been passed in the House,  
2 the position with regard to the sales taxes on construc-  
3 tion equipment is clarified and we are somewhat dismayed  
4 by the fact that provincial and municipal governments  
5 remain exempt from federal sales taxes on their equipment  
6 while the contractor continues to be subject to the tax.

7 We are inclined to agree, I am sure, with what  
8 Mr. Fulton said; that it would be somewhat absurd for  
9 one government to impose a tax on another government,  
10 thereby creating a further tax to pay the tax.

11 However, our position is this: we find provin-  
12 cial and local government getting into the contracting  
13 business, the business of construction, more and more,  
14 and we feel that their exemption from the tax, as opposed  
15 to the contractors' high cost of buying the necessary  
16 equipment to perform the work, is partly the cause of  
17 this, and we have referred to, and attached here as an  
18 appendix, the report from the Royal Commission on Govern-  
19 ment Organization which makes it quite clear that in  
20 their view the Government, at all levels, should not be  
21 purchasing this equipment and getting into the business  
22 themselves.

23 This should be an area left to free enterprise,  
24 particularly in such a highly competitive business as  
25 construction.

26 COMMISSIONER GRANT: When tenders are called,  
27 you do not find yourself in competition with the Provin-  
28 cial Government on that particular contract?

29 MR. HODSON: Not when the Provincial Government  
30 calls tenders; this is correct. Although some municipal



H5 1 governments do, in fact, tender on their own work in  
2 competition to other bids.

3 COMMISSIONER GRANT: Well, do municipal govern-  
4 ments acquire heavy machinery? Is that much of a factor  
5 in the industry?

6 MR. HODSON: Yes. We find it particularly so  
7 in this area. As we have pointed out in our brief, the  
8 Provincial Government boasts a fleet of \$30 million.  
9 We have no idea what the equipment fleet might be in  
10 the City of Vancouver, but we are confident it is a  
11 substantial amount of money; fairly large construction  
12 fleet, as opposed to a maintenance fleet. This holds  
13 true in varying degrees in other municipalities in this  
14 province.

15 THE CHAIRMAN: Your complaint is with the  
16 exemption to government rather than the tax on yourselves;  
17 am I correct?

18 MR. HODSON: Yes, I believe that is the way to  
19 express it. We do not feel the tax should be imposed on  
20 the Government, Mr. Chairman, but we feel, if they are  
21 going to continue to compete with us in construction,  
22 we should be afforded the same exemption.

23 THE CHAIRMAN: If the taxes were imposed on the  
24 Government on these matters and you are in an equal posi-  
25 tion, you would have nothing more to say about it, I take  
26 it?

27 MR. HODSON: Assuming that they would be  
28 discouraged from purchasing this equipment as a result of  
29 being taxed on it, I think the answer is yes.

30 THE CHAIRMAN: I think we understand your



1 position. I think you made it very clear. We will  
2 certainly consider what you had to say to us. I will  
3 see if there is anything I have overlooked. I don't  
4 think so.

5 Thank you very much, indeed, for your appearance  
6 today and your submission to us. It is indeed helpful.  
7 We have no more questions and simply say thanks.

8 MR. LAURIE: Thank you, Mr. Chairman.

9 THE CHAIRMAN: All right, Mr. Secretary.

10 THE SECRETARY: Mr. Chairman, the next submis-  
11 sion is presented by Dr. Gordon Blake, Economic Consultant  
12 to The North-West Line Elevators Association, on behalf  
13 of The North-West Line Elevators Association. Dr. Blake  
14 is appearing before you and I now enter this submission  
15 into the record as Exhibit No. 146.

16  
17 --- EXHIBIT NO. 146: Submission of The North-West Line  
18 Elevators Association.

19  
20 SUBMISSION OF THE NORTH-WEST LINE  
21 ELEVATORS ASSOCIATION

22 Appearance: Dr. Gordon Blake

23 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
24 morning, Dr. Blake.

25 DR. BLAKE: Good morning, Mr. Chairman.

26 THE CHAIRMAN: I am glad to see you here. Don't  
27 stand unless you wish to do so. Most people don't.

28 DR. BLAKE: Thank you.

29 THE CHAIRMAN: Some of the lawyers do.

30 DR. BLAKE: I have noticed.



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1 THE CHAIRMAN: Dr. Blake, we have your creden-  
2 tials, biographical sketch, and I see that you done  
3 various economic studies. I don't see that you have been  
4 into this area of the taxation of co-operatives before.

5 Would you have had previous experience in the  
6 taxation of co-operatives?

7 DR. BLAKE: Not in particular, Mr. Chairman.  
8 I think you will notice from this so-called sketch that  
2 9 my interests have, however, been rather broad and a  
10 number of them have been closely associated with taxation  
11 problems.

12 The answer to your question, though, is no.  
13 I became interested in this partly, I think, through  
14 accident. I think I should tell you how it was.

15 I was assisting the Chamber of Commerce of  
16 Winnipeg in a brief which they were putting up. This  
17 is the background of the matter, and it came to my atten-  
18 tion there with some striking force - we were dealing  
19 with problems of equity there, as well as I am attempting  
20 to do so here - and this led to this perusal of tax  
21 equity.

22 THE CHAIRMAN: Thank you very much. I did not  
23 mean to infer that I had any doubts about your qualifica-  
24 tions to discuss it. I merely wanted to bring out every  
25 bit of experience which you have had in this.

26 I might say we have all read this with consi-  
27 derable interest. You tie your submission to three  
28 aspects: revenue, economic effects, and equity.

29 DR. BLAKE: I have no doubt there are others,  
30 Mr. Chairman. I was choosing what I considered are very





H8

1 important ones in a modern tax system.

2 THE CHAIRMAN: Yes; it went through my mind  
3 that there are a number of others. I think I agree those  
4 are very significant.

5 COMMISSIONER WALLS: Dr. Blake, there is a  
6 question on page 2, before you get into the co-operative  
7 question. You say that taxes on corporate income are  
8 unquestionably drags on efficiency, and about a page  
9 further you give us an alternative; that is, you favour  
10 increased use of personal income tax and consumption tax.

11 Now, if you favour progressive taxes for corpora-  
12 tions, as you state, do you likewise not favour the use  
13 of progressive personal income tax?

14 DR. BLAKE: Mr. Walls, I don't think that I  
15 did say further on that I favoured progressive income  
16 tax. I did say that it is not difficult to envision a  
17 buoyant revenue from the personal income tax but I should  
18 think they would be buoyant from a proportional tax as  
19 well as progressive. I am not asking for progression  
20 in the income tax.

21 COMMISSIONER WALLS: You are opposed, though,  
22 to progression in corporation taxes; am I not right in  
23 that?

24 DR. BLAKE: Yes, in both, to be perfectly frank.

25 COMMISSIONER WALLS: That is my answer.

26 THE CHAIRMAN: Both being corporation and  
27 personal taxes?

28 DR. BLAKE: Yes. I must admit this brief is  
29 not concerned much with personal income tax.

30 COMMISSIONER WALLS: It was to get the benefit



H9 1 of your advice that I asked the question.

2 DR. BLAKE: Perhaps I might say a word more  
3 about that while we are on that subject. It is referred  
4 to on page 2, isn't it?

5 THE CHAIRMAN: It is, as it affects corporations.

6 DR. BLAKE: And down at the bottom I said I  
7 wasn't impressed with the logic of progressive taxes  
8 in a free enterprise economy. That included personal  
9 income tax as well, my view being that it is a distortion  
10 of an ability to pay.

11 THE CHAIRMAN: That could lead us into a very  
12 long discussion and I am purposely not questioning you on  
13 that.

14 DR. BLAKE: Yes, indeed.

15 COMMISSIONER WALLS: I have another question,  
16 jumping ahead to page 8, that I was not quite clear on  
17 and perhaps you could elaborate. In paragraph 21 you  
18 state that:

19 "...consequently co-operatives invariably  
20 sell above cost and buy below cost."

21 Would you explain what you mean by "buy below  
22 cost"?

23 DR. BLAKE: Just making a distinction between  
24 a co-operative which is a selling co-operative, merchan-  
25 dising co-operative, and a co-operative which markets the  
26 products of other people.

27 COMMISSIONER WALLS: And do they buy below cost?

28 DR. BLAKE: I should think so, depending on  
29 how we determine the cost is arrived at.

30 THE CHAIRMAN: I was going to say whose cost;



HLO 1 I would have thought the purchases would be at cost to  
2 them.

3 DR. BLAKE: At cost to them would give them no  
4 margin for operating, would it? I am suggesting in prac-  
5 tice they work on a margin of both aspects of their opera-  
6 tion.

7 COMMISSIONER WALLS: Let's take the example  
8 that you use in here with respect to wheat.  
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I/PB/dpw 1 Is it not a fact that the Wheat Board sets prices;

2 whether it is a co-operative or a private elevator they  
3 pay the price set by the Wheat Board

4 DR. BLAKE: Yes it is. I think we have to find  
5 where the price set by the Wheat Board comes from, but  
6 that is probably a long story.

7 COMMISSIONER WALLS: That is outside our terms  
8 of reference.

9 DR. BLAKE: I believe, however, that in doing  
10 this they, in fact, ensured some mark-up for the work  
11 they do, and I would say, in fact, they would ensure some  
12 cost.

13 THE CHAIRMAN: Have you got down to paragraph 9?

14 COMMISSIONER WALLS: I got beyond paragraph 9.

15 THE CHAIRMAN: Can we go back to paragraph 9?  
16 In paragraph 9 you deal with income <sup>and</sup> profit and make  
17 the statement that a tax on profits is not really such  
18 at all. I have a little difficulty in following you  
19 completely. I can understand that profits very often  
20 include an element of interest; return on capital, which  
21 is not a profit, profit being the return in relation to  
22 the risk, I would say, to which the capital may be subject.

23 You say:

24 "That most corporation income is not profit  
25 at all. It is a return to labour, to  
26 capital, to entrepreneurial ability."

27 I would have thought that pure profit was a  
28 return to the owner for the risk to which he put his  
29 resources; am I right?

30 DR. BLAKE: With due deference, Mr. Chairman,





12 1 to accountants ---

2 THE CHAIRMAN: You don't need to offer any  
3 deference whatsoever. I am extremely humble in this  
4 regard.

5 DR. BLAKE: I was attempting to say here that  
6 the economist does look at profit in a somewhat different  
7 way from the accountant, and, in fact, somewhat different  
8 from most people. It may be the economist goes too far on  
9 this: I have no question as far as income tax is concerned  
10 and certainly that is after the normal cost of operation  
11 and production are taken out. At the same time I think  
12 that the economists' profits will still be less than the  
13 accountants' profits, not only over where you have to  
14 consider offset losses, but I think almost by definition  
15 because I think that you have to allow in what we might  
16 call cost itself for sufficient return to keep the entre-  
17 preneur or management interested in the operation in the  
18 entrepreneurial stage, which is not accounted for and  
19 certainly never returns on risk capital to prevent it from  
20 going away somewhere else. Those are the two principal  
21 elements which I think should be considered costs rather  
22 than profits.

23 To that extent the economists' profit will be  
24 less than the profit arrived at by the accountant. I do  
25 say taxes do hit these profits but they only hit them  
26 in addition to striking some other form of income which,  
27 I suspect, wouldn't be pure profit in the ordinary sense.

28 THE CHAIRMAN: I am afraid we have to remain  
29 apart a little bit. However, I think I could, perhaps,  
30 with a bit of effort follow the economic concept.



I3 1 DR. BLAKE: It is a long-standing argument  
2 between the two of us.

3 THE CHAIRMAN: Now, I would think, despite what  
4 you say here in 12, which is on the bottom of page 5,  
5 that there is a difference in the nature of co-operative  
6 income as opposed to corporate income. Corporate income  
7 results from transactions between people who have nothing  
8 to do, generally, with the ownership of the business,  
9 investment of capital, or what is commonly referred to as  
10 at arm's length, whereas co-operative income

11 is based upon transactions generally with the  
12 owners and as such I would think that those transactions  
13 would miss the market test. Therefore, I may have missed  
14 the point of your remarks up to there. If I have would  
15 you please put me on the track?

16 DR. BLAKE: I think I should say this, Mr.  
17 Chairman: this point is the crux of my whole brief. When  
18 you say you may disagree that the nature of co-operative  
19 income is so different from the nature of corporate income,  
20 I wonder if we have the same idea of the word "nature."  
21 I have said both incomes come from the same economic  
22 process. I have said that any market which generates  
23 these incomes, both the co-operative form of corporation  
24 and the privately-owned, if we can use that term, form  
25 of corporation - both exert what I have called their  
26 economic power. I think, in an economy which is a mixture  
27 of these two forms of corporation, prices which emerge  
28 must certainly be the prices which result from the nature  
29 again of all these forms of business enterprises because  
30 they are all forms of business enterprises.



I 1 I can hardly see how it is possible to say one  
2 is of a different nature, in the sense I use the term, than  
3 the other, simply because one is, as you say, arm's  
4 length, and the other is not. I would be pretty convinced  
5 from what I know of the way in which co-operatives do  
6 work that their operations might just as well be at arm's  
7 length because of their multifarious activities.

8 THE CHAIRMAN: Therefore, Dr. Blake, we need  
9 have no regard to the possibilities of what is commonly  
10 referred to as pricing out - I believe that is the term -  
11 which is a prospect of co-operatives reducing their prices  
12 if taxed so as to not show profit.

13 DR. BLAKE: I think the taxing authority would  
14 be well-advised to give it due regard, but I rather  
15 question whether anyone else needs to. That is a perfectly  
16 legitimate process for co-operatives if they wish to adopt  
17 it. That is not the kind of competition that I am deploring.  
18 That is price competition. That's all right.

19 THE CHAIRMAN: Does it not disregard the measure-  
20 ment upon which taxes would be levied?

21 DR. BLAKE: I think it definitely would. I  
22 think, then, the Government might have to look very  
23 seriously at revising its whole concept of corporation  
24 income, and income in general, for that matter. Income,  
25 it seems to me, is a legal definition by the taxing  
26 authority. Perhaps I might be wrong; perhaps they don't  
27 define it, but they have some idea of what it is.

28 THE CHAIRMAN: If, as you say, the tax authorities  
29 must have regard to pricing out if co-operatives were  
30 taxed on their income fully as recommended, they would



I5 1 have to be policed very closely to see they didn't  
2 reduce their prices so as to disturb the measurement of  
3 income; isn't that correct?

4 DR. BLAKE: I think that is really a problem  
5 for the taxing authority.

6 THE CHAIRMAN: An immense problem.

7 DR. BLAKE: If you take my prime recommendation  
8 to wipe out corporation taxes completely it would over-  
9 come it. I don't think that would be accepted. I don't  
10 think the Government would be much worse off than it is  
11 at the present time, certainly.

12 COMMISSIONER PERRY: I have found it a little  
13 difficult to see the reasons on which you rest your main  
14 case. You seem to have at least two here, Dr. Blake:  
15 one is spelled out clearly in paragraph 9 on page 8 -  
16 that is that the economic nature of the operations is  
17 the same no matter what the form of the entity, and the other  
18 appears later on, as I read it, in paragraph 23 on page  
19 23.

20 DR. BLAKE: Paragraph 23.

21 COMMISSIONER PERRY: ~~The numbers~~ happen to be the  
22 same, in any case. You appear to argue that the validity  
23 of the patronage dividend type of distribution is under-  
24 mined by the complexity of the operations of, one would  
25 assume, large co-operatives, which I think is a quite  
26 different argument altogether than the first one. Do you  
27 rest your case on both of these, and, if so, do you give  
28 priority to one or the other?

29 One would point out if it is the second one  
30 then all you are arguing is that size is a factor.





1 DR. BLAKE: No, I am not arguing, Mr. Perry,  
2 that size is a factor. If you were to ask me to choose  
3 between the two of them, and I not saying at the moment  
4 they are different, I would say the nature of income is  
5 the factor. It simply happens that since we are concerned  
6 with problems of modern tax systems, that if it happened  
7 that what might have been a pure patronage dividend based  
8 on an agency basis, that is to say a co-operative merely  
9 as an agent of their members ---

10 COMMISSIONER PERRY: May I interrupt you to ask  
11 whether you do concede it is possible that you could have  
12 an agency relationship?

13 DR. BLAKE: Yes, in which case this wouldn't be  
14 an income-producing co-operative and I would have nothing  
15 to say about the nature of its income. I am not speaking  
16 of the agency type of co-operative. I am, however, saying  
17 - I do say somewhere that co-operatives have, for the  
18 greater part, lost their agency status if, in fact, they  
19 had one.

20 Paragraph 23 simply points to this fact again.  
21 When they become large and complicated and get into all  
22 kinds of operations such as insurance, brokerage, news-  
23 paper publishing, oil exploration, and so on, it becomes  
24 increasingly difficult, of course, to say that payments  
25 to members are based on any concept of patronage. That  
26 is all that paragraph is intended to put over. While this  
27 is not part of my argument, because I am attempting to  
28 argue in terms of principle, I think there is no question  
29 that the increase in tax levels, including those of the  
30 corporate level, of course, has brought to light in a very



171 striking way, to my mind, the discrimination which does  
2 exist because of what I call preferential treatment of  
3 co-operative income in the sense that the discrimination  
4 might have been hidden earlier where levels were very  
5 low, but now they come out in strong force.

6 COMMISSIONER PERRY: Might I just ask Dr. Blake  
7 whether you feel it would be difficult or impossible to  
8 maintain the agency relationship in direct relationship  
9 to the size of the organization? Suppose you had a large  
10 operation in which great care had been taken in law and  
11 in practice to attain the agency relationship: would you  
12 argue that the rebate paid there wasn't a patronage divi-  
13 dend? My difficulty is whether size is a factor here.

14 DR. BLAKE: I think size is a factor only to the  
15 extent it increases the inequity, but in terms of principle,  
16 I would say it wasn't necessarily a factor. You say would it  
17 be possible through law and practice to maintain an  
18 agency relationship: I would say it might be through law;  
19 it wouldn't be through practice.

20 COMMISSIONER PERRY: You are persuaded it would  
21 be impossible in practice in a very large organization to  
22 maintain the agency relationship.

23 DR. BLAKE: In my opinion.

24 COMMISSIONER WALLS: In the same page you are ---

25 THE CHAIRMAN: What page is that?

26 DR. BLAKE: Paragraph 23.

27 COMMISSIONER WALLS: It is on page 23.

28 DR. BLAKE: On page 9. It is in the middle.

29 COMMISSIONER WALLS: You are right. I was  
30 looking at the number in the corner, page 9.



R/dpw 1 COMMISSIONER WALLS: Page 9 you are dealing

2 with the fact of certain co-operatives retaining patro-  
3 nage dividend at no interest at all. Now, am I not  
4 right that that would be subject to a motion at their  
5 annual meeting as to whether that amount would be  
6 retained, and, if so, have they not a right to decide  
7 whether they shall loan money to themselves at 10% or  
8 5% or no interest at all?

9 DR. BLAKE: I think we probably all agree that  
10 the co-operative, like the corporation, has suffered  
11 considerably from what we call the deficiencies between  
12 ownership and control. I think that a general resolution  
13 binding on members, while it may be democratic, as  
14 explained to me by both co-operative managers and  
15 corporation managers, it is binding the members to a  
16 procedure which is conceivably a procedure they might  
17 not have chosen for themselves.

18 This may be considered undemocratic but I think  
19 it is the way things work. I do not think the member of  
20 a co-operative probably has any more to say, an individual  
21 member, despite the fact it is a one-member, one-vote,  
22 than the ordinary stockholder in a business or corporation.

23 I think we must conceive of these co-operatives  
24 as legal entities, if we are going to conceive of group  
25 corporations as legal entities.

26 I think it is as logical to say that a corpora-  
27 tion is an agent of the shareholders, or trustee of the  
28 shareholders, as it is to say that a co-operative is an  
29 agent of its members.

30 COMMISSIONER GRANT: Dr. Blake, I would like to



52 1 discuss with you a bit of your preface here, the principle  
2 of equity. You lay most emphasis in your brief on that  
3 principle of equity, which you regard as the inequity of  
4 the present method of taxation as between the corporation  
5 and the co-operative enterprise.

6 Equity is a term which, in my understanding,  
7 is an outgrowth of the law. It is a legal term. Equity  
8 has been defined legally as coming not to supplant the  
9 law, but to more adequately fulfil it.

10 Now, if you were basing your argument on equi-  
11 table principles, you do not seem to offer any compromise  
12 in your treatment of the joint stock company  
13 and the co-operative. You want Sections 73 and 75  
14 repealed and you want the same tax rates applied to the  
15 co-operatives as are now applied to the corporations.

16 Would you consider that the co-operatives have  
17 a place for any preferential treatment because of the  
18 manner in which they came into existence?

19 I am not referring now to the size to which they  
20 have grown, but the fact that they came into existence  
21 because industry, in many instances, was not fulfilling  
22 the obligation which society might have regarded as being  
23 part of its purview, either industry or government.  
24 Therefore, citizens found it necessary, for their welfare,  
25 to organize themselves into groups.

26 Now, I know in the conclusion of your brief  
27 that you have warned against becoming sentimental. I  
28 know that you would certainly distinguish between senti-  
29 ment and sentimentality, but I would be interested in  
30 knowing whether or not you, as a matter of philosophy,





1 would consider that the establishment of co-opera-  
2 tives had given them any right today to any preferential  
3 treatment, tax-wise.

4 DR. BLAKE: I should say, Dr. Grant, that I, too,  
5 have been impressed with the earlier history of much of the  
6 co-operative movement, and I am not being sentimental  
7 about that. I do say this: that if there were a case for  
8 preferential treatment, then I think a government which  
9 accepted this as a policy would be wise to make an overt  
10 subsidy, instead of attempting to subsidize through a  
11 method which I have very little respect for; that is  
12 preferential taxation.

13 I think if it were a question of equity, and I  
14 agree that it is a very elusive term, this equity, I don't  
15 think it is really what Adam Smith meant by justice in  
16 taxation. I think it is in addition to justice in taxa-  
17 tion, but it seems to me that this kind of thing could  
18 be done as a matter of policy and not by the creation of  
19 what seems to me to be tax discrimination. I feel this  
20 way about all tax abatements.

21 THE CHAIRMAN: I think we have no more questions.  
22 Dr. Blake. I am left - perhaps because I am an accountant -  
23 but I am left with some difficulty as to how one proceeds  
24 to equitably collect taxes, if he decided it was a good  
25 thing to do. So long as there is a pricing-out principle,  
26 I would have thought that it places tax administration in a  
27 pretty unmanageable position.

28 Now, maybe it is not possible to measure income.  
29 I don't know. If that is so, perhaps there ought to be  
30 another form of tax, but I rather think you think it is



J4 1 possible to measure income or profits in the manner of an  
2 accountant doing so, and in somewhat the same manner as  
3 is measured for other businesses, and, therefore, it is  
4 possible to collect taxes, but you do say, at the same  
5 time, that pricing out is a possibility or probability.  
6 I think you went that far.

7 DR. BLAKE: I did not mention pricing out in my  
8 brief.

9 THE CHAIRMAN: I did, and I thought you agreed  
10 with me.

11 DR. BLAKE: Yes, I think it is a possibility.  
12 At the same time I rather question whether co-operatives  
13 would willingly do this beyond certain points. They have  
14 not done it so far and it would certainly increase their  
15 difficulty in acquiring capital for expansion. It seems  
16 to me that they are prepared to do this more than go to  
17 the market for money on equal terms with other corporate  
18 organizations; I think equity might be served there.

19 THE CHAIRMAN: Perhaps so. Thank you. Well,  
20 we are very grateful indeed for you coming today and  
21 helping us with this. We are going to hear lots more on  
22 this subject, I haven't any doubt. This has been very  
23 helpful to us. Thank you.

24 DR. BLAKE: Thank you for listening to me, Mr.  
25 Chairman. I appreciate it.

26 THE CHAIRMAN: Have you got something, Mr.  
27 Secretary.

28 THE SECRETARY: I have another submission here  
29 from the Board of School Trustees of School District No.  
30 39 in Vancouver, which I would like to enter into the



J5 1 record as Exhibit 147.

2

3 --- EXHIBIT NO. 147: Submission of the Board of School  
4 Trustees of School District No. 39  
(Vancouver)

5

6 THE SECRETARY: Also a brief which has been  
7 delivered here at about 11 o'clock this morning from the  
8 Industrial Development Commission of Greater Vancouver  
9 which I would like to enter into the record as Exhibit  
10 No. 148.

11

12 --- EXHIBIT NO. 148: Submission of the Industrial  
13 Development Commission of Greater  
Vancouver.

14

15 THE SECRETARY: That is all for this morning,  
16 Mr. Chairman. We convene in Edmonton at 9.30 on Monday  
17 morning.

18 THE CHAIRMAN: The Royal Commission stands over  
19 until 9.30 Monday morning in Edmonton.

20

21 --- Adjournment

22

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# ROYAL COMMISSION

ON

# TAXATION

## HEARINGS

HELD AT

Edmonton Alberta

VOLUME No.:

39

DATE:

Aug 19 / 63

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1  
2  
3 ROYAL COMMISSION ON TAXATION

4 Hearing held in Court Room  
5 No. 8, Court House, 100 St.  
6 & 102A Ave., Edmonton,  
7 Alberta, on the 19th day of  
8 August, 1963.

9 COMMISSION:

10 MR. KENNETH LeM. CARTER -- Chairman

11 MR. J. HARVEY PERRY

12 MR. A. EMILE BEAUVAIS

13 MR. DONALD G. GRANT

14 MRS. S.M. MILNE

15 MR. CHARLES E.S. WALLS

16  
17 LEGAL ADVISER:

18 MR. J.L. STEWART, Q.C.

19  
20 RESEARCH DIRECTOR:

21 PROF. D.G. HARTLE

22  
23 SECRETARY:

24 MR. G.L. BENNETT  
25  
26  
27  
28 -----  
29  
30







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I

ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF EDMONTON, ALBERTA

August 19, 1963

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Mr. A.M. Holmes,  
Edmonton, Alberta

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a/IR/dpw 1 --- On commencing at 9.30 a.m.

2 THE CHAIRMAN: Mr. Secretary, I think it is  
3 close enough to 9.30. We might as well start.

4 THE SECRETARY: I am 9.30 right on the dot, Mr.  
5 Chairman. Good morning, Commissioners. I think it is  
6 probably fit that the first brief in the City of Edmonton  
7 is being presented by the Edmonton Chamber of Commerce.  
8 This morning we have with us Mr. G.E. Pearson, who is  
9 Vice-Chairman of the Taxation Committee of the Chamber,  
10 and with him, Mr. H.A. Stewart, a member of the Taxation  
11 Committee.

12 These gentlemen are here to speak to the brief  
13 which I now enter into the record as Exhibit 149.

14  
15 --- EXHIBIT NO. 149: Submission of the Edmonton Chamber  
16 of Commerce.

17 SUBMISSION OF THE EDMONTON CHAMBER OF COMMERCE

18 Appearances: Mr. G.E. Pearson  
19 Mr. H.A. Stewart

20 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
21 morning, Mr. Pearson, Mr. Stewart.

22 MR. PEARSON: Good morning, sir.

23 MR. STEWART: Good morning, sir.

24 THE CHAIRMAN: We are glad to see you, indeed,  
25 here today. We have read your submission with considerable  
26 interest. We will have questions to put to you.

27 I might say before starting that we are  
28 delighted to be in Edmonton. I seem to have found myself  
29 in this city some three or four times in the last few weeks  
30 so we have not been overlooking this part of the world.



1 We have heard a bit about taxes from some of your neigh-  
2 bours already.

3 Before putting questions to you, Mr. Pearson,  
4 Mr. Stewart, are there any things that you would like to  
5 say to us in amplification of your submission, or by way  
6 of summary or anything else?

7 MR. PEARSON: Mr. Chairman, Mrs. Milne and  
8 gentlemen, I have some introductory remarks that I  
9 would like to make before we talk about those specific  
10 points in our brief. After that, I think most of the  
11 points are covered in the brief although I had considered  
12 discussing the first five points that we recommend.

13 THE CHAIRMAN: Proceed as you would like to.

14 MR. PEARSON: I would like to start by saying  
15 on behalf of the Edmonton Chamber of Commerce, I would like  
16 to thank you for the opportunity we have of presenting to  
17 you some general thoughts concerning the very broad and  
18 complex area of taxation in Canada. We realize that when  
19 we set about preparing the brief, the members of the  
20 Commission have already listened to and read a great many  
21 briefs.

22 THE CHAIRMAN: Are you more comfortable sitting?

23 MR. PEARSON: I think I prefer to stand, sir.

24 THE CHAIRMAN: As you please.

25 MR. PEARSON: But we hope that our submission  
26 may be of some value in your search for the right path out  
27 of the jungle of taxation in which we as Canadians now  
28 find ourselves. I would like to point out that the  
29 written brief of the Edmonton Chamber of Commerce was  
30 prepared prior to the presentation of the budget on



A3 1 June 13, 1963, by Finance Minister Walter Gordon and that,  
2 therefore, some of the comments or recommendations  
3 contained therein may already have been dealt with by  
4 the government.

5 It was realized, when the decision was made  
6 that the Edmonton Chamber of Commerce would submit a brief  
7 to the Royal Commission on Taxation, that it was very  
8 probable that anything that we would say in our brief  
9 would already have been covered or mentioned by other  
10 interested parties. However, it was felt that the things  
11 that the Edmonton Chamber of Commerce had to say were  
12 worth repeating, and that the more often these points  
13 were presented to the Commission the more the Commission  
14 would be aware of the interest of the citizens of Canada  
15 and especially the interest of the residents of the Edmon-  
16 ton area, and therefore the more weight these specific  
17 points would carry. It was also realized that, in a sub-  
18 mission of this sort, where the persons preparing the  
19 brief were giving of their own time, which is of necessity  
20 limited, it is not possible to put the tremendous amount of  
21 research and study into the subject that would be necessary  
22 to produce specific recommendations concerning the large  
23 and varied problem areas of taxation in Canada. It was  
24 decided, therefore, that the brief should concentrate on  
25 the presentation of some of those general areas of taxation  
26 in Canada which the Edmonton Chamber of Commerce feels  
27 should be reviewed and studied by the Commission and its  
28 staff. It was also decided that as far as possible the  
29 brief would be of a general nature and cover problems which  
30 are common to the businessmen of this area. In other





A4 1 words, it was not intended that the brief would be a  
2 technical brief prepared by tax experts but rather that  
3 it would speak for the businessman of this area. The  
4 brief should also speak for all members of the Edmonton  
5 Chamber of Commerce, if possible, and not the members in  
6 any specific industry or members with any specific  
7 complaint.

8 RECOMMENDATIONS

9         The first five recommendations contained in our  
10 brief are of a very general nature and relate to the formu-  
11 lating of tax policy and several general comments concern-  
12 ing the administration of it.

13         Our first recommendation arises out of our  
14 concern that the many and various taxes which are levied  
15 on citizens of Canada are not the result of a carefully  
16 planned and thought out policy, but rather are the result  
17 of a tax structure which has grown like Topsy, and this  
18 growth has followed the easiest way to raise monies rather  
19 than the best way, in a great many circumstances.

20         Our first recommendation is "That before any  
21 decisions concerning our basic tax structure are made, a  
22 detailed study of who bears the burden of corporate and  
23 personal income taxes and of excise and sales taxes  
24 should be made, and when a policy should be established as  
25 to who should bear the burden." The Edmonton Chamber of  
26 Commerce realizes that ever-increasing sums of money must  
27 be raised by the various levels of government in Canada  
28 to meet the cost of government and the cost of the many  
29 expanding services which we, as voters, have insisted the  
30 government provide us with. The purpose of this brief



A5 1 is not to discuss the level of government spending which  
2 we sincerely hope will be kept at a minimum, but we  
3 realize that the major portion of the necessary dollars  
4 must be raised through taxation of various sorts. It is  
5 also well understood by the Edmonton Chamber of Commerce  
6 that all taxes which are levied are ultimately paid by  
7 individuals and not, as some people believe, by companies.  
8 We therefore think that it is very important to try to  
9 determine on whom the ultimate burden of taxation falls.

10 In this regard, these are some of our thoughts,  
11 without going into great detail: when corporation taxes  
12 are levied, does the corporation pass this tax burden on  
13 to its customers in the form of either increased prices  
14 or by not passing economies which have been made on to its  
15 customers? Does the corporation pass on this tax to its  
16 employees by not increasing their salaries or wages, or  
17 does the corporation pass on this tax to its shareholders  
18 through reduced dividends? What happens to these taxes?  
19 Are sales taxes which are levied against a retailer  
20 absorbed by that retailer as a reduction in his profit or  
21 are they passed on to his customers in increased prices?  
22 Does an increase in personal income tax mean that an employer  
23 has to pay his employees more in order that their take-home  
24 pay remains the same, and if this is the case, does the  
25 corporation then pass on this extra cost to its customers?  
26 These are only a few of the many problems involved in  
27 determining who ultimately bears the burden of taxation in  
28 Canada and it may very well be that it will be next to  
29 impossible to accurately determine the flow of tax.  
30 However, the Edmonton Chamber of Commerce feels that before



A6 1 any tax policy can be decided upon, its effect on the  
2 citizens of Canada must be determined.

3       The second general recommendation of the  
4 Edmonton Chamber of Commerce is that "If it is decided  
5 that basic changes in our tax structure are required,  
6 that they should be preceded by a programme to inform  
7 and educate the public at large as to the reasons for,  
8 and the results to be obtained from such changes." In  
9 any democracy it is necessary to satisfy the majority of  
10 the voting population that a substantial change in an  
11 important matter like taxation is necessary for the good  
12 of the country. In the past, the tax policy has unfor-  
13 tunately been used in some instances for political  
14 reasons. As an example, any suggestions that corporate  
15 income tax be reduced; that companies' dividends be  
16 exempt from further tax in the shareholders' hands, or  
17 that the extremely high top rates of personal income tax  
18 be reduced have not been popular with the mass of the  
19 voters. These recommendations arise from our fear that  
20 taxation has been quite often in the past, or if it has  
21 not been, it would be very unusual, because of politics,  
22 to a great extent. We think that the citizens of Canada  
23 are sufficiently mature and intelligent to accept a  
24 major change, if it is explained to them the reasons  
25 behind the change; if it is adequately set out for them.

26       In this way, a change would perhaps be unaccep-  
27 table politically but may become acceptable. A good  
28 example of this was the recent uproar concerning the  
29 elimination of the exemption from sales tax for building  
30 products and materials. It is very probable that if there



A7 1 were any large-scale changes made in our tax policy and  
2 tax law that there would be a similar uproar.

3           The third general recommendation of the Edmonton  
4 Chamber of Commerce is that "The basic principles of the  
5 tax policy should be established and made public, and that  
6 the taxing statutes should be as simple, precise and  
7 equitable as possible." We realize that this recommenda-  
8 tion might be a bit idealistic since it is often incon-  
9 gruous in law to attempt to combine precision and simpli-  
10 city. However, I think most of us who work with income  
11 taxes generally know there are sections of the Income Tax  
12 Act at the present time which almost defy translation and  
13 there are other areas where apparent loopholes have  
14 existed for some time without being closed, and the tax-  
15 payer is often uncertain as to whether or not he is  
16 violating the intention of the Act by taking advantage of  
17 these loopholes.

18           The fourth general recommendation concerns the  
19 administration of taxation at the federal level and it is  
20 That a planning group of senior personnel of the Depart-  
21 ment of Finance should be charged with continuous study  
22 of our tax structure and of planning improvements in it."

23           We feel in Ottawa at the present time there is  
24 no group specifically charged and given the time to carry  
25 out the duty of keeping a continual watch on the Act,  
26 planning ahead and ensuring that the problems that have  
27 arisen in the past don't arise in the future.

28           While the Edmonton Chamber of Commerce does not  
29 like to suggest that an increase be made in the Civil  
30 Service, we do feel that this job is too important to be





AS 1 left to people who are already extremely busy with the  
2 day-by-day administration of the Income Tax Act. We feel  
3 that a planning group of this sort would ultimately result  
4 in a decrease in staff requirements of some of the lower  
5 levels of the department if their planning is effective,  
6 since the administration of the Act should become easier.  
7 We are not casting aspersions on the abilities of the  
8 present senior officials of the Department, because they  
9 are, from what we understand, very diligent and able  
10 people. However, we feel that this change would help a  
11 great deal.

12 The fifth and last general recommendation is  
13 "That taxpayers should be made aware of the amount of  
14 income, excise and sales taxes that they pay." Once again  
15 this recommendation may appear to be idealistic and diffi-  
16 cult to carry out; however, the Edmonton Chamber of  
17 Commerce is concerned that the citizens of Canada are not  
18 aware of the out-of-pocket cost to them of supporting the  
19 governments and the welfare services which the voters  
20 demand today. We feel that the majority of wage earners  
21 in Canada do not realize the amount of tax which is  
22 deducted from their salary or wages, but are only concerned  
23 about whether or not they are entitled to an income tax  
24 refund at the end of the year. Corporate shareholders do  
25 not usually pay much attention to the amount of tax that  
26 their company is paying, whether or not it is passed on to  
27 them or to the customers of the company. Nobody realizes  
28 the amounts of sales tax and excise tax which they pay on  
29 the goods which they purchase. We feel a better knowledge  
30 and awareness of what it is costing them personally as



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1 taxpayers to run our government and to provide the many  
2 services which are demanded today, may make the Canadian  
3 people consider more carefully the advisability of an  
4 ever-expanding government and ever-increasing welfare  
5 services. While we realize that it may be impossible to  
6 make Canadian taxpayers aware of the exact amounts of  
7 taxes of all sorts which they are paying, we do feel that  
8 a great deal more could and should be done in this regard.

9 This covers the five general recommendations  
10 made by the Edmonton Chamber of Commerce concerning  
11 certain aspects of tax policy and administration. The  
12 remainder of our recommendations are fairly specific.  
13 I don't know whether you would like me to discuss them  
14 or whether you would prefer to perhaps ask any questions.

15 THE CHAIRMAN: I think we will ask one or two  
16 questions on the general statements that you have made,  
17 and then proceed to the more specific application.

18 In your recommendation No. 1 you speak of the  
19 need for a study as to who bears the burden of certain  
20 taxes. In your remarks you spoke about all taxes but in  
21 your opening statement you do not speak about all taxes.  
22 You speak about certain ones.

23 I have regard to the admission of such things.  
24 as property taxes. Property taxes nowadays do not only  
25 bear the cost of property, usually, but they also bear  
26 social costs, too, and I would have thought that one must  
27 be concerned about the total taxes paid by the Canadian  
28 taxpayer.

29 MR. PEARSON: Yes, I think you are right, Mr.  
30 Chairman. This was an unintentional omission. To me



10 1 you can't examine taxes without examining all taxes.

2 In other words, if we want to establish who is  
3 paying the burden of taxation, this would have to encompass  
4 all taxation for any government service.

5 THE CHAIRMAN: What do you have in mind as to  
6 basic principles of taxation? Would a basic principle be  
7 that the tax system should or should not be neutral as  
8 between taxpayers?

9 MR. PEARSON: Later in the brief, Mr. Chairman,  
10 we discuss incentives.

11 THE CHAIRMAN: Or do you go to Adam Smith for  
12 basic principles?

13 MR. PEARSON: We think that the basic problem  
14 of whether the taxation system should be used to give  
15 incentives, whether general incentives or specific incen-  
16 tives, is something that should be decided at the outset.  
17 There is certainly a number of arguments pro and con on  
18 this, and perhaps general incentives, and also specific  
19 incentives, may not be all right. I don't think I am  
20 qualified to ---

21 THE CHAIRMAN: What I was reaching for is  
22 probably the same thought you have in mind at the  
23 moment; namely, our job must, I think, in the first  
24 instance, be to seek neutrality.

25 MR. PEARSON: Yes.

26 THE CHAIRMAN: Seek to find a position where  
27 all taxpayers share the burden in a fair manner.

28 MR. PEARSON: Yes.

29 THE CHAIRMAN: And then having established that  
30 principle, dealing with any incentives, taking it off



All 1 one taxpayer and putting it on another - incentive is  
2 a shift. It doesn't come out of the air. It is a change  
3 between one taxpayer to the other taxpayer and I think,  
4 if that is what you mean, I fully understand.

5 MR. PEARSON: Yes. Basically we feel there are  
6 two steps to start with. One is to decide on the policy  
7 of who should bear taxes, and, as you say, make it a fair  
8 distribution of the burden. To do this you also have to  
9 decide who is presently bearing it, and what the effects  
10 of the various types of taxes are.

11 COMMISSIONER PERRY: Who did you have in mind  
12 would do the deciding? We are a federal tax commission.  
13 The Federal Government is responsible perhaps for only  
14 two-thirds of the taxes that are collected. A Royal  
15 Commission of this kind can propound certain principles.  
16 The Federal Government can propound certain principles —  
17 but can one go much farther than that?

18 MR. PEARSON: I would like to say that is a  
19 problem. It would be very difficult when you get into  
20 federal-provincial-municipal jurisdictions. The only way  
21 I can see it being carried out properly is through  
22 co-operation between the three levels of government.  
23 This could be a very difficult thing, I would think. I  
24 have no answer.

25 COMMISSIONER PERRY: It always has been.

26 MR. PEARSON: Yes. I have no answer.

27 THE CHAIRMAN: We are, of course, interested in  
28 your Item No. 5, the tax payers should be made aware of  
29 the amount of income, excise and sales taxes that they  
30 Presumably if that were carried through, that would





A121 end any idea of manufacturers' sales taxes, I would think.

2 It would be very hard to tell a consumer how much of a manu-  
3 facturer's sales tax was included in the goods.

4 MR. PEARSON: Yes, it would be extremely difficult,  
5 sir. I am not sure that manufacturers' sales tax is the  
6 best type of tax either. There are arguments against  
7 informing the public as to how much taxes they are paying,  
8 too, but I think that the benefit outweighs the disadvan-  
9 tages.

10 Some people think it would be very difficult to  
11 collect taxes from the lower levels, if they knew how  
12 much they are paying in sales taxes.

13 THE CHAIRMAN: You don't agree with that?

14 MR. PEARSON: I think it might be difficult.  
15 I think they still should know.

16 THE CHAIRMAN: So long as it is corporation  
17 taxes, they would never know how much of that is included.

18 MR. PEARSON: I think, as I mention, that our  
19 recommendation might be a bit idealistic. However, I  
20 think every attempt by us should be made to do it, if it  
21 can be done.

22 COMMISSIONER PERRY: Again, in a practical vein,  
23 I just wondered what you had in mind as the medium here.  
24 There has been a study made in Canada which gives a rough  
25 idea of the total tax burden on various levels of income.  
26 This study received a certain amount of press publicity  
27 at the time it appeared.

28 Do you have in mind that each person would be  
29 sent a statement at the end of the year giving an esti-  
30 mate of how much tax he had paid in the year or that,  
say, a can of tomatoes



A13

1 had a mark on it showing the tax contained? There is a  
2 very real practical problem.

3 MR. PEARSON: I think in total there might be.  
4 I think there are steps that can be taken that would meet  
5 it. Apart from sales taxes, I think that one of the big  
6 problems is that wage earners do not know how much income  
7 tax they are paying, to a great extent. I am sure very  
8 few of them realize it. I think this can be cured  
9 reasonably easily. They have no specific ideas. Rather  
10 than, perhaps, having deductions at source, perhaps they  
11 should get all their money in one hand and pay it back by  
12 cheque every month on the other hand. This makes collec-  
13 tion much more difficult.

14 COMMISSIONER PERRY: They do file returns once  
15 a year. They should know at least then.

16 MR. PEARSON: They should know, but I don't  
17 think they do. A lot of them perhaps do not file returns.  
18 Well, they must file for tax purposes, of course, but  
19 certainly in my practice, the personal tax practice, we do  
20 have people of that sort, and for more intelligent  
21 people. People that are earning reasonably large amounts  
22 of money - they don't pay enough attention to how much  
23 money they pay during the year in tax.

24 They look at the final figure and say, "How  
25 much do I owe?" or, "How much is coming back?" and a month  
26 later they have forgotten all about it.

27 COMMISSIONER PERRY: This is maybe inevitable.  
28 I am not sure that I know how much money my wife spends  
29 for groceries, for example. That is a pretty relevant  
30 item in our family budget. I could find out if I took



1 the effort. I can find out how much tax I pay if I made  
2 the effort.

3 MR. PEARSON: I think I agree there are problems  
4 in it. You refer to manufacturers' sales taxes - I am  
5 just thinking this out - perhaps the answer would be a  
6 retail sales tax with the amount shown on the purchase,  
7 which certainly hits home when you purchase an article;  
8 quite often there is so much tax on top of what you  
9 thought you were going to pay. The general principle,  
10 though, is, we are a little afraid of hidden taxation.

11 It is too easy to hide a tax because it makes it easier  
12 to collect.

13 COMMISSIONER PERRY: I just have one other  
14 question on this suggestion for making public proposed  
15 tax changes. Now, it has always been considered that is  
16 what the Minister was doing when he was delivering his  
17 budget speech. You obviously have in mind something more  
18 than that.

19 MR. PEARSON: Well, yes, perhaps I do. Here  
20 again, I realize that there can be instances where this  
21 could be difficult to do. We would think more specifically  
22 about drastic changes in policy that might be required as  
23 a result of the deliberations of your Commission, for  
24 instance, and the fact that if there was a drastic change  
25 in the tax system proposed, that perhaps something would  
26 be difficult to have put through in the present situation.



B/PB/dpw 1

2 If there was an adequate - what you might call  
3 advertising or public relations campaign before or during  
4 the thing it would become acceptable. This wouldn't  
5 necessarily have to be done before the budget became public  
6 or anything of this sort. I am thinking of more general  
7 changes.

8 THE CHAIRMAN: You referred, by way of illustra-  
9 tion, to the elimination of the exemption with regard to  
10 building materials.

11 MR. PEARSON: Yes.

12 THE CHAIRMAN: Surely if that had been the  
13 subject of public debate the uncertainty surrounding the  
14 bidding of contracts for quite a period of time would be  
15 a means of greatly affecting trade, and I suspect that  
16 the lobbying and extent of the public debate of such a  
17 sensitive point as that would be a menace, would it not?

18 MR. PEARSON: My thinking on that, sir, was that  
19 perhaps a thing like this could be done in a little  
20 different way. These are very general thoughts. I haven't  
21 thought of them too much, recently. Perhaps rather than  
22 the public first hearing of them, hearing of them only  
23 from the budget address, perhaps at the same time there  
24 could be released something to the press; something that  
25 would really give a good deal of background, reasons,  
26 thinking behind the change that might help to soften the  
27 blow, the people have it explained a little more clearly.  
28 I don't think Ministers usually have time in the House.

29 THE CHAIRMAN: A supporting white paper.

30 MR. PEARSON: Something of that sort. I am sure  
with the support of the press and the radio and the





1 various financial writers this could be presented at the  
2 same time. I don't know how you get around the lobbying.  
3 I don't know if you would ever get around that problem.

4 THE CHAIRMAN: And that is a good thing.

5 MR. PEARSON: It might be.

6 THE CHAIRMAN: Let us proceed, then. The next  
7 is the Income Tax Act.

8 MR. PEARSON: Yes, sir.

9 THE CHAIRMAN: Do you wish to speak to this or  
10 shall we proceed to ask you questions?

11 MR. PEARSON: I think if you just proceed to ask  
12 questions it would be fine.

13 THE CHAIRMAN: The first point you raise  
14 concerns capital gains. You suggest "That special  
15 provisions for taxing short-term real estate profits be  
16 introduced in order that they may attract tax at a more  
17 reasonable rate." I guess a more reasonable rate implies  
18 that the rate should be lowered; is that what you have in  
19 mind?

20 MR. PEARSON: Well, in some instances, perhaps.  
21 The thought here is that real estate business is such  
22 that the earnings and the profits can fluctuate very  
23 greatly from one year to the next, more of spreading it.

24 THE CHAIRMAN: It is an averaging process you  
25 have in mind?

26 MR. PEARSON: More or less, this would be our  
27 thinking.

28 THE CHAIRMAN: If there were an averaging process  
29 because of the fluctuating nature of the income I presume  
30 there is no reason why a speculator in real estate should



33 1 not pay the same rate of tax as anybody earning income.

2 MR. PEARSON: No, I think that would be fair.

3 THE CHAIRMAN: What you have in mind ---

4 MR. PEARSON: It is the question of what year  
5 the profit would fall in. The proposal was, as I recall  
6 it, that some sort of - we mentioned an average rate of  
7 tax for the preceding three years; perhaps something like  
8 that, just to avoid the situation where the profits could  
9 all fall into one year, thereby penalizing the man.

10 THE CHAIRMAN: There are differences when you  
11 get into capital gains as to just how heavily taxes  
12 should be imposed. There is a point that a man whose  
13 business is speculating should pay the same thing as any-  
14 body else should do. Then there is the man who is in it  
15 casually, and if there are any capital gains, perhaps there  
16 is a reason for doing as they do in the States; cut the  
17 tax rate in half.

18 MR. PEARSON: This is if you pay tax on capital  
19 gains at all.

20 THE CHAIRMAN: The English have imposed a lower  
21 rate of tax on that. Probably changes in investment again  
22 justify either no taxes or possibly a lower rate of taxes;  
23 I don't know. We hear it argued very often that any addi-  
24 tions to net worth should be taxed the same whether they  
25 are what we normally call  
26 income, or whether they are from the sale of capital  
27 assets.

28 MR. PEARSON: Yes.

29 THE CHAIRMAN: That is the economists' point of  
30 view.



B4 1 MR. PEARSON: Of course, the Edmonton Chamber  
2 of Commerce doesn't feel a capital gains tax is necessary.  
3 We don't say that it would eliminate the present problem  
4 of the differential between what is capital gain or what  
5 is income - as long as you have the two rates of tax you  
6 are going to have that problem.

7 COMMISSIONER PERRY: I see you suggest an amend-  
8 ment to Section 139(1)(e).

9 MR. PEARSON: Yes. It appears a great many of  
10 the present problems with regard to capital gains are to  
11 define initially what a capital gain is according to 139  
12 (1)(e), which is a pretty all-embracing section. I think  
13 a lot of the people who are in favour of a capital gains  
14 tax are favouring it simply because at the present time  
15 a great many capital gains are falling into the definition  
16 of business.

17 THE CHAIRMAN: We are finding people who are  
18 proposing it for revenue purposes apart altogether from  
19 the benefits of definition.

20 COMMISSIONER PERRY: Your group think we have  
21 one now and just want a lower rate. I am not talking  
22 about the Edmonton group; the group you have just referred  
23 to.

24 THE CHAIRMAN: Where do you come by the 45 in  
25 the United States as being the proportion of capital gains  
26 tax to income tax - page 9?

27 MR. PEARSON: I think I took that from a speech  
28 of Mr. A.J. Little that he made to the Toronto Board of  
29 Trade.

30 THE CHAIRMAN: That may well be. I am finding



B5 1 it very difficult to get any estimate of what the capital  
2 gains tax is in the United States.

3 COMMISSIONER WALLS: I believe the Canadian Tax  
4 Foundation worked it out slightly under 1% of the total  
5 tax revenue of the United States.

6 THE CHAIRMAN: That is different from 4%.

7 COMMISSIONER WALLS: That is of total tax  
8 revenue.

9 MR. PEARSON: I am just checking this reference.  
10 Mr. Little says, in the United States the revenue from  
11 capital gains tax is less than 4% of the revenue from  
12 income tax.

13 THE CHAIRMAN: A.J. Little to the Vancouver  
14 Board of Trade.

15 MR. PEARSON: No, the Toronto Board of Trade -  
16 the Canadian Club in Toronto, October 22nd, 1962.

17 THE CHAIRMAN: Thank you. Any other questions?

18 COMMISSIONER WALLS: Yes. I was wondering  
19 whether in your recommendation that we give study to  
20 capital gains tax you are thinking of a

21 more complete capital gains tax along the  
22 lines of the United States or a modified one such as now  
23 exists in the United Kingdom where if there is a real  
24 estate transaction or a stock transaction that the capital  
25 gains tax is only to be on profits within a limited  
26 period; if it is a long-term investment there is no capital  
27 gain.

28 MR. PEARSON: Yes. Sir, basically we recommend  
29 there should be no capital gains tax, but we have, as you  
30 just mentioned, considered the real estate problem and we





B6 1 suggest perhaps some sort of time limit for holding real  
2 estate be considered. In other words, our recommendations  
3 are two: one that there should be no capital gains tax,  
4 and, two, that the present problem of the real estate  
5 people should be helped a bit by some sort of averaging  
6 of their real estate profit and a true real estate profit  
7 shall not be subject to tax, true capital gain in real  
8 estate.

9 THE CHAIRMAN: Why restrict this to real estate?  
10 Why not securities, too?

11 MR. PEARSON: Partly because I don't think - I  
12 wouldn't expect there are the same profits being realized  
13 in securities across the country as there are in real  
14 estate. Perhaps we notice this more in the west, although  
15 I would doubt it. As our cities expand there can be some  
16 very large real estate profits.

17 THE CHAIRMAN: Any further questions on capital  
18 gains? We have heard a good deal of the desirability of  
19 advance rulings from the Department of National Revenue.  
20 Do you now, in Edmonton, fail to get the rulings that you  
21 need?

22 MR. PEARSON: We can get opinions, sir, with  
23 all - I don't think they are not held to, but you have  
24 always got the uncertainty. You are not sure. We don't  
25 feel having advance rulings would cure all the troubles.  
26 I think in a lot of cases you would still get an opinion  
27 on what might happen if we did something. I think there  
28 would probably be relatively few instances where you would  
29 want to go with all the final details of a proposed scheme  
30 and get an advance ruling. I think it would be nice to



B7 1 do it if you had to. I see reason for the Department not  
2 being able to do this if they have all the facts before  
3 them and these are the facts that are carried through.

4 THE CHAIRMAN: What you would like is to get a  
5 ruling from them instead of saying, "In our opinion this  
6 transaction would attract such a tax; you want our finding  
7 is this will be taxable at ---" that is what you would  
8 like?

9 MR. PEARSON: Exactly.

10 THE CHAIRMAN: I wonder if there is any practical  
11 significance to that. Like yourself I have heard no  
12 suggestion that the opinions have not been lived up to.

13 MR. PEARSON: No.

14 THE CHAIRMAN: In order to achieve what you  
15 suggest I would think might burden the Department to a  
16 much greater extent than it is now. If that is so, and  
17 I don't know that it is so, but if that is so it may be  
18 of doubtful merit to impose this for the intangible bene-  
19 fit of which you speak.

20 MR. PEARSON: Sir, if there is enough reaction  
21 that they are burdened I think it is something we probably  
22 need. If there are enough cases of that sort perhaps it  
23 is a problem.

24 THE CHAIRMAN: Anything further on that? We  
25 will certainly look at the tax incentives.

26 MR. PEARSON: Yes.

27 THE CHAIRMAN: You suggest consideration be  
28 given to lowering corporate income tax rates. I doubt  
29 whether your Board would be prepared to recommend it with  
30 government undergoing a deficit at the same time, therefore



1 if it were to be revised have you any views as to what  
2 compensating tax should be imposed?

3 MR. PEARSON: To start with, this would all be  
4 contingent on whether or not there were any material  
5 basic changes. In other words, if it were your recommenda-  
6 tion that more of the financing of the Government should  
7 come from the provincial sales tax rather than income tax  
8 - I should think that is the natural place to look, myself.

9 THE CHAIRMAN: Thank you. I think we have  
10 discussed the secrecy before, didn't we?

11 MR. PEARSON: Yes.

12 THE CHAIRMAN: No. 11, depreciation. I think we  
13 have generally found the opinion that the present deprecia-  
14 tion system is not a bad one and Canadian taxpayers are  
15 not complaining very much about it.

16 MR. PEARSON: No.

17 THE CHAIRMAN: Just how much more latitude do  
18 you think should be given? Do you think taxpayers ought  
19 to be permitted to state their own rates of depreciation  
20 and, if so, do you think they should be limited to what  
21 is reflected in the taxpayers' books?

22 MR. PEARSON: If you limit it to what is  
23 reflected in the taxpayer's books you probably would, in  
24 a lot of cases, not get as much depreciation as you now  
25 get.

26 THE CHAIRMAN: What is the case for allowing  
27 more than what is in the books if we are measuring income?  
28 I can't see there could be one except as an incentive.

29 MR. PEARSON: We were looking at the other point  
30 of view where a company just hasn't got the funds available.



BC 1 Perhaps the answer is to levy the tax and establish terms  
2 of payment such that it could be deferred until the funds  
3 are in the company.

4 THE CHAIRMAN: You are thinking of a taxpayer  
5 who starts in debt?

6 MR. PEARSON: Yes.

7 THE CHAIRMAN: As opposed to the one who starts  
8 with lots of capital?

9 MR. PEARSON: Yes.

10 THE CHAIRMAN: Should the fellow who starts with  
11 a debt have an advantage over the one who started properly  
12 financed?

13 MR. PEARSON: This problem could be overcome  
14 if there was an affirmative tax with an appropriate rate  
15 of interest. The man that had to arrange financing - he  
16 could be up to his ears at the start, which would mean  
17 that the tax would be a hardship to him. He should be  
18 able to repay when he was able.

19 COMMISSIONER WALLS: As an alternative to that,  
20 what about the three-year tax holiday similar to what is  
21 given to mines and to co-operatives?

22 MR. PEARSON: I am sure all the members of the  
23 Edmonton Board would endorse that.

24 THE CHAIRMAN: For all business forms, corporate  
25 or other?

26 MR. PEARSON: Yes.

27 THE CHAIRMAN: I would like to dig into this a  
28 little bit more. I wonder if I am missing anything here.  
29 I am always surprised to see the suggestion of more  
30 liberality in regard to choice of depreciation rates. I was





B10 1 wondering what rates are conspicuously inadequate,  
2 if there are any.

3 MR. PEARSON: I think in the majority of  
4 instances rates are fine. I would agree with that.  
5 I think the depreciation rates are quite adequate. We  
6 are strictly - I think when we prepared this we were  
7 looking at the problem of a new business that required  
8 a large amount of borrowed capital support, and unfor-  
9 tunately the lenders of the borrowed capital look for  
10 their money at the start of the operation.

11 THE CHAIRMAN: I am wondering whether the tax-  
12 payers of Canada through the National Treasury should, in  
13 that way, make money available to finance business or  
14 should it not be done in some more organized manner. You  
15 are suggesting taxpayers forego something or another in  
16 order to make money available to one taxpayer.

17 MR. PEARSON: The Government would certainly  
18 have to look to this, to see how much we are talking  
19 about in any one year because of the deferment. I have  
20 no idea how much it would be. It probably would fluctuate  
21 a great deal, I would think.

22 COMMISSIONER PERRY: Were you thinking of some-  
23 thing like the British initial allowance which they allow  
24 for the first year?

25 MR. PEARSON: Our rates give a pretty good write-  
26 off in the first year.

27 COMMISSIONER PERRY: Their normal rates do  
28 also, but in addition they have this allowance in the first  
29 year.

30 THE CHAIRMAN: Your total write-off in excess of



B11 1 100%?

2 COMMISSIONER PERRY: No, that is investment  
3 allowance. They are the two there. In other words, they  
4 get a write-off of 30% in the first year and in the same  
5 year also have their normal depreciation.

6 MR. PEARSON: Something like that perhaps  
7 could be adequate, although I would think to avoid the  
8 problems the Chairman mentioned about the taxpayer  
9 financing it should be restricted in some way to companies  
10 that require this type of thing in order to have funds.

11 THE CHAIRMAN: This is an interesting comment  
12 on personal tax rates. Why do you equate maximum personal  
13 tax rates with maximum corporate rates? Perhaps there is  
14 good grounds for that; I don't know. Is there something?

15 MR. PEARSON: There is nothing very deep about  
16 that, nothing very deep. I have no answer to that. It  
17 seemed like the natural thing. Why should I have to pay  
18 more than a company?

19 THE CHAIRMAN: I have been hoping that somebody  
20 is going to come forward and say at no time should a tax  
21 rate be more than something or another and have good  
22 supporting reasons for it. I don't suppose I am going to  
23 receive this because it is difficult to rationalize tax rates.

24 MR. PEARSON: You would think 50% would be,  
25 because it seems wrong to pay out more than you get.

26 THE CHAIRMAN: I thought maybe at some stage  
27 somebody might come forward and say you should keep more  
28 than one-half of whatever you have got and that should  
29 apply to everybody.

30 MR. PEARSON: This point of high personal tax



B12 1 rates and relatively small amounts of tax that are raised  
2 from it. On that point, a little more publicity about  
3 the reason might help. If this was dropped from 80% to  
4 50%, and if it were adequately explained, the voter  
5 wouldn't object, and might say, 'Fine, that sounds all  
6 right.'

7 THE CHAIRMAN: You think there might be some  
8 offsetting matters to that?

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C/AR/dpw 1 There are certain traditions in the Act which were intro-  
2 duced there because of the very high rates of personal  
3 taxes, the fact that those destroy, or are alleged to  
4 destroy, incentives. Couldn't some of those come out?  
5 Wouldn't that be the sensible offset?

6 MR. PEARSON: Perhaps. This, of course, all  
7 ties in with the overall problem of who is bearing taxes  
8 and it should all be cured with the same solution.

9 COMMISSIONER PERRY: I think it is relevant to  
10 point out that probably the effect of the federal rate  
11 on this level is not much more than 50% now, assuming  
12 that income at this level - that is in excess of \$200,000

13 would be largely dividend income. You knock  
14 off your 20% dividend credit; it brings your marginal rate  
15 down to 60%. Knock off provincial tax credit; it brings  
16 you down 16%, and that brings you down to about 50%.  
17 This seems to be a fact which is not very widely appre-  
18 ciated.

19 MR. PEARSON: Well, no, though perhaps as far  
20 as incentives are concerned, here again, a man that is  
21 earning this money, he looks at the rate of tax he has  
22 to pay at the top level, and he doesn't appreciate this  
23 either.

24 THE CHAIRMAN: It is pointed out to us that  
25 while you are probably correct in your comment about the  
26 top rates for Sweden, Norway, Italy and Germany, 65%, 55%,  
27 53% and 53% respectively, in most of those cases the top  
28 rates start at a very low income and the bite is pretty  
29 significant.

30 MR. PEARSON: I did not realize that.





In Norway,

02 1 THE CHAIRMAN: /it's on income, which is something  
2 like \$4,000. Twenty-five thousand kroner, which is about  
3 \$4,000, I believe. It may be a little more than that.  
4 Probably the odd exemption helps out. It is very  
5 low.

6 MR. PEARSON: Here again, you can't look at the  
7 personal tax rates in a vacuum. You have to consider  
8 other tax structures.

9 THE CHAIRMAN: I think the same is true in  
10 looking at the progression of our own personal income tax.  
11 When one looks at it they are not really as progressive  
12 as they appear to be.

13 MR. PEARSON: That perhaps is true.

14 THE CHAIRMAN: We, of course, are interested in  
15 that and will know something about it before we get  
16 through. Corporate surplus: a clear policy is certainly  
17 most desirable. We would be very interested now, or  
18 later, or at any time anybody cares to put before us any  
19 suggestions as to how you get a clear policy on this. It  
20 is rather difficult under this dual-rate principle. There  
21 are two ways of getting money out of companies: one  
22 by dividend and one by re-organization, winding up, et  
23 cetera. It is rather difficult where there are different  
24 rates, to find some solution which human ingenuity  
25 can't lick. It is pretty hard to lock that door as has  
26 been proven many times.

27 MR. PEARSON: It is a very difficult problem,  
28 and we realize that.

29 COMMISSIONER PERRY: The study you refer to, I  
30 imagine, was the one that was being done by the Committee



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1 of Four which has since been released?

2 MR. PEARSON: Yes.

3 THE CHAIRMAN: Business expenses. You have a  
4 couple of illustrations of things that are not taken care  
5 of there: payment to a contractor to acquire from him a  
6 construction contract. Purchase price of a fixed period  
7 contract to purchase newsprint. I suspect there are a lot  
8 more. One doesn't come on them every day.

9 MR. PEARSON: I ran across one a week ago, sir,  
10 in my own practice. A company who was using a bridge that  
11 belonged to another company they were supplying: the  
12 supplier was required, or decided, to increase the size of  
13 the trucks they were using for this particular operation,  
14 and, as a result, the bridge had to be strengthened and  
15 they had to pay for the cost of strengthening the bridge.

16 The question came up as to how they stood on  
17 this. It is a little uncertain, this sort of thing, and  
18 I don't think it should be.

19 THE CHAIRMAN: That money is pretty clearly  
20 laid out to earn the income of that contract.

21 MR. PEARSON: It was enough of an expenditure  
22 to be a capital expenditure. I am a little concerned.  
23 We have not looked at it too closely and since they do not  
24 own the asset ---

25 COMMISSIONER PERRY: That is an extra complica-  
26 tion, isn't it?

27 MR. PEARSON: Yes. This is the sort of thing  
28 I don't think that companies should have to worry about.  
29 It seems to me an expenditure like that should either be  
30 a clear expense in the year or ---



04 1 THE CHAIRMAN: How would you take care of this?  
2 List them all in the Act?  
3 MR. PEARSON: No, I don't think so.  
4 THE CHAIRMAN: Tie it to accounting principles?  
5 MR. PEARSON: That might be a way to do it.  
6 THE CHAIRMAN: I don't think it is easy.  
7 MR. PEARSON: No.  
8 THE CHAIRMAN: You have got quite a body of law,  
9 as you know, and law does not in all cases support account-  
10 ing principles.  
11 MR. PEARSON: No.  
12 THE CHAIRMAN: I would like to know very much  
13 whether people would be prepared to go for that kind of an  
14 answer. I think we will hear more of that.  
15 MR. PEARSON: Yes.  
16 COMMISSIONER PERRY: The British Royal Commission  
17 recommended that there be a statutory provision to outlaw  
18 the jurisprudence. This is the only way you could get rid  
19 of it.  
20 THE CHAIRMAN: And make a fresh start.  
21 MR. PEARSON: Yes.  
22 THE CHAIRMAN: With regard to co-operatives,  
23 whether the incentives they enjoy are justified.  
24 MR. PEARSON: This perhaps ties in with our  
25 section on incentives themselves. This is just another  
26 type of incentive that is enjoyed by a particular segment  
27 of our business community.  
28 THE CHAIRMAN: Do you think that the entire  
29 part of the Act dealing with co-operatives is to provide  
30 incentives or some measure of income, to which your



C5 1 exemption period - I suppose you classify that as an  
2 incentive?

3 MR. PEARSON: I would think so.

4 THE CHAIRMAN: Well, they are taxed after that,  
5 subject to deduction. That is not incentive legislation,  
6 is it?

7 MR. PEARSON: Well, it enables them to accumulate  
8 capital at a reasonable rate.

9 THE CHAIRMAN: Perhaps so.

10 MR. PEARSON: I think that our thought is  
11 perhaps they are taxed in a different manner than a great  
12 many of the businesses which they compete with. A lot of  
13 co-operatives no longer confine their activities, as we  
14 say here, to simply buying and selling for their members  
15 as a group rather than these people acting individually.

16 They have expanded their activities. Perhaps a  
17 fresh look is required because of this

18 THE CHAIRMAN: Thank you. Personal corporations.  
19 I think we are concerned about that more in the opposite  
20 direction than as you state here. It seems to me that  
21 the fact that an individual can use a corporation is  
22 probably most desirable for succession duty purposes but  
23 it is very hard to arrange that under income taxes he  
24 doesn't achieve an advantage over other taxpayers. If one  
25 can hold up the distribution of his income, that is  
26 certainly a very substantial loophole in the Act, which  
27 this section tries to close, perhaps imperfectly, but that  
28 is what it is designed to do and it seems to me that one  
29 can't leave that kind of loophole. That has got to be  
30 taken care of.





06 1 MR. PEARSON: I can agree certainly a personal  
2 corporation - somebody has described it like a conduit  
3 pipe. That is, that income should flow through. As with  
4 most legislation, there are sometimes problems to certain  
5 specific people because of the wording of the Act.

6 THE CHAIRMAN: You spoke about losses. I don't  
7 think I understand. How do losses occur in personal  
8 corporations?

9 COMMISSIONER PERRY: Also recapture of deprecia-  
10 tion. How does it occur?

11 MR. PEARSON: I must confess I did not write  
12 this particular part.

13 COMMISSIONER PERRY: We have ~~already~~ embarrassed  
14 one or two other people by asking the same question, with  
15 about the same result.

16 THE CHAIRMAN: There may be losses, because  
17 they seek something individual, but they are essentially  
18 an investment company.

19 MR. PEARSON: Yes, that is true.

20 THE CHAIRMAN: I really don't see how a loss  
21 comes about.

22 MR. PEARSON: Unless it was a case of a corpora-  
23 tion changing from a regular corporation to a personal  
24 corporation, holding assets, and then selling them.

25 COMMISSIONER PERRY: That could be.

26 MR. PEARSON: That is a possibility.

27 THE CHAIRMAN: I do not find what I was looking  
28 for here, really, which is a way to close the loophole in  
29 equity and with fairness, because it seems to me that one  
30 has got to approach the personal corporation problem in



37 1 exactly that manner.

2 MR. PEARSON: It is a difficult problem. There  
3 was a move made to make some changes a year or two ago.

4 THE CHAIRMAN: Well, people now are seeking all  
5 kinds of small businesses and destroying this concept.

6 MR. PEARSON: That is right.

7 THE CHAIRMAN: There are a tremendous number of  
8 wealthy men who tried these things and accordingly are  
9 able to hold up the distribution of their income and avoid  
10 personal taxes, which is certainly not what this is  
11 designed to do.

12 Associated companies: some people are telling us  
13 that the two rates of corporation taxes do not appear to  
14 be necessary, saying that it is possible to take care of  
2 15 the small companies by adjusting salaries, and other means  
16 of that kind.

17 You find that there is a need for the two rates.  
18 You have not spoken of this here, I don't think.

19 MR. PEARSON: This is certainly another form of  
20 incentive, sir. I would think if you did not have two  
21 rates, probably have one rate that was slightly higher  
22 than the 21%, you would probably have fewer incorporations.  
23 I would think people would think twice before incorporating  
24 small businesses. I don't know whether this is good or  
25 bad.

26 THE CHAIRMAN: This double rate causes an awful  
27 lot of trouble.

28 MR. PEARSON: It does.

29 THE CHAIRMAN: The moment one has two rates,  
30 everyone gets busy trying to beat this thing; trying to



03 1 devise some means of dissociating companies and I wonder  
2 if it is possible to draw definitions which are good enough.

3 MR. PEARSON: I don't know whether or not two  
4 rates are necessary. Here again, I think it comes under  
5 the incentive area. This is a pretty big area. Whether  
6 it should be in the Act or not ---

7 COMMISSIONER PERRY: I wonder what you mean by  
8 the suggestion that companies engaged in similar types  
9 of operations be allowed to claim the low rate. I wonder  
10 specifically what you mean by "similar type of operation."  
11 I have in mind the breaking up of integrated companies  
12 into manufacturing, distributing, and so on. Would you  
13 rule out that? Would you allow two companies in the  
14 distribution phase to claim the rate? It's this type of  
15 operation that was not clear in my mind.

16 MR. PEARSON: This would be, again, difficult.  
17 I think our thought here was perhaps, looking at it from  
18 the competition point of view, if one operation is split  
19 into two parts, they are no worse off than their competitor  
20 across the street who is still operating as one company.

21 They might be worse off than two strangers that  
22 are operating against them, but you have the 21% low rate.  
23 However, if one managerial group acquires companies, these  
24 companies immediately on acquisition become less profit-  
25 able because they become subject to the high rate of tax  
26 rather than getting the benefit of the low rate. This  
27 doesn't seem to make much sense. I agree with you that  
28 when you get to integrated companies, some of the larger  
29 oil companies, for instance, this could be a problem. I  
30 don't know the solution to it, I am afraid.



09 1 COMMISSIONER PERRY: Similar type of operation  
2 in terms of the industry as a total, or the particular  
3 function being carried on? This isn't terribly important,  
4 but it was just a stumbling block I ran into.

5 MR. PEARSON: I am afraid I will have to leave  
6 it as a stumbling block.

7 COMMISSIONER GRANT: My recollection of the  
8 advent of the associated company provision was that it arose  
9 from the lower tax rate/to small businesses so as to  
10 prevent corporations from breaking down their business  
11 into divisions and thus taking advantage of the lower tax  
12 rate.

13 I am under the impression that the practice in  
14 the corporate field is changing now from what it was when  
15 the associated company provision went in, to the extent  
16 that there is now greater tendency for business to diver-  
17 sify and to spread the risk, so to speak; not have all  
18 their eggs in one basket. If they have been successful,  
19 say, in the construction business, they feel they may not  
20 always have it as good as they have had it in the past  
21 and they want to get into some other form of business.  
22 Therefore, there is a tendency to use their assets which  
23 they have built up in their main business to acquire other  
24 companies, or to form other companies and these be diversi-  
25 fied. Hence, I would think that the advent of that type  
26 of corporation could have a very definite effect upon  
27 whether or not the associated company provision still  
28 forms a useful purpose.

29 MR. PEARSON: Perhaps the answer does lie in  
30 one tax rate rather than the dual rate.





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CIO 1 THE CHAIRMAN: If you have any further thoughts  
2 on that, we would be very glad to have them. We are going  
3 to hear a good deal about the particular point as to  
4 whether there should be two rates.

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D/PB/dpw 1 It is very clear that it is a hard thing to do, to provide

2 two rates.

3 MR. PEARSON: Yes, it gives rise to a great  
4 deal of trouble.

5 THE CHAIRMAN: Moving on to oil and gas, I see  
6 that you point out that it is desirable to provide an  
7 incentive by way of depletion allowances to companies  
8 in the oil and gas industry. Traditionally that has  
9 certainly been the case. I wonder if it is possible to  
10 say that the great growth of this industry is due largely  
11 to tax incentives or would it have occurred anyhow?  
12 Would that have happened if they hadn't been allowed  
13 depletion?

14 MR. PEARSON: I would think, perhaps - and I  
15 am not really an expert on oil and gas - it would probably  
16 be more difficult for Canadians to take part in oil and  
17 gas if there hadn't been depletion. To my knowledge the  
18 depletion provisions are certainly enjoyed by American  
19 companies and if our Canadian companies had not been able  
20 to compete with the same tax advantages quite possibly  
21 they wouldn't have been able to hold their own. I might  
22 point out our brief doesn't say it is desirable. We say,  
23 "If it is desirable."

24 THE CHAIRMAN: Yes, I see. I, coming from the  
25 east, am not familiar with the problems as many of the  
26 people are in this province, but I am wondering whether  
27 this is put forward as a means of measuring income. I  
28 think I have heard the argument it is, or whether it is  
29 by way of incentive. I think it is quite important which  
30 it is, if we accept the principle that first of all we



D2 1 must find out what is a mutual sharing of tax and then look  
2 at incentives afterwards.

3 MR. PEARSON: With the new changes in the Act,  
4 to me, it has nothing to do with measuring income because  
5 all companies now are allowed to write off development  
6 costs and now allowed to write off costs of leases. You  
7 have nothing left to deplete, so depletion does become,  
8 in fact, an incentive.

9 THE CHAIRMAN: Thank you. Anything else there?

10 COMMISSIONER PERRY: Your point on the purchase  
11 and sale of oil and gas leases is fairly clear, but I  
12 wonder if there is anything more that you would  
13 want to say about that?

14 MR. PEARSON: I don't think I have anything to  
15 add. To me they are fairly technical points, really.  
16 The first, at the present time, when oil or gas rights are  
17 sold the proceeds of the sale are considered to be income  
18 for tax purposes. If the right was acquired after April  
19 10th, the cost is allowed as a deduction from income.  
20 If the oil or gas right was acquired before April 10th  
21 the cost is not allowed as a deduction. Now, this doesn't  
22 seem to make much sense.

23 The second one, special privileges enjoyed  
24 between affiliated companies: Section 33A and Section 17(1),  
25 a subsidiary company, for instance, cannot sell its oil  
26 and gas rights to its parent company without being deemed  
27 to have sold at fair market value. In this situation  
28 fair market value is calculated on income and the parent  
29 company entitled to deduct cost as an expense. This can  
30 still make it a little difficult for ordinary corporate



D3 1 purposes to move these assets from one company to another.

2           The third point, here again, comes back to  
3 incentives; what incentives should be given. It seems to  
4 me that the sale of oil or gas rights by an oil company  
5 is just simply part of its income and it is taxed as  
6 income and not eligible for depletion allowance for which  
7 the incentive is designed. Why should it not also apply  
8 to sale?

9           THE CHAIRMAN: Then it is given twice. Your  
10 argument is, if you sell it, it is a substitution of taking  
11 the oil out and therefore you should get depletion. How-  
12 ever, the buyer would get the depletion. This way you  
13 are getting depletion twice.

14           MR. PEARSON: Right.

15           COMMISSIONER PERRY: And the shareholder of the  
16 company.

17           MR. PEARSON: It is how far you go. I see  
18 your point.

19           THE CHAIRMAN: In fact, this income is excluded  
20 for computation of the income against which depletion is  
21 granted?

22           MR. PEARSON: Did you want to talk about the next  
23 one; the gross depletion?

24           THE CHAIRMAN: Yes.

25           MR. PEARSON: Oil and gas companies as well as  
26 mining companies, of course, are allowed to determine  
27 taxable income and the depletion is calculated after  
28 development expenses, drilling expenses, and things of  
29 that sort are deducted so that the companies that are  
30 actively engaged in drilling and exploration, in fact,





04 1 don't get as much depletion as the company that has  
2 exactly the same income before drilling and exploration,  
3 but doesn't carry on drilling and exploration expenses.  
4 It would seem to us if there is going to be an incentive  
5 of this sort it should be designed to promote exploration  
6 in Canada, and perhaps the effect of this is to take away  
7 some of the incentive for drilling and exploration.

8 American companies, as I understand it, are  
9 allowed to take depreciation on gross basis; in other  
10 words, are allowed - it really boils down to depletion on  
11 a well-by-well basis. It works on two bases: Your  
12 producing property on which you are entitled to depletion  
13 and the exploration activities on the other hand. Here we  
14 say if it is desirable to provide incentive by way of deple-  
15 tion allowances to companies in the oil and gas industry;  
16 that consideration be given to permitting depletion to be  
17 calculated at some lower rate than the 33 and one-third  
18 percent, on a different base.

19 THE CHAIRMAN: It all gets down as to how much  
20 incentive.

21 MR. PEARSON: Exactly.

22 THE CHAIRMAN: You are making a comparison with  
23 the United States which seems to me has some validity.  
24 On the other hand, one must bear in mind the fact in  
25 Canada we haven't got capital gains tax as they do in the  
26 United States. It seems to me that is a considerable  
27 factor in favour of the Canadian system.

28 MR. PEARSON: Yes.

29 THE CHAIRMAN: So I am not sure, as you say, we  
30 should match them step by step.



25

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2 MR. PEARSON: This may be a point, sir, I agree.  
3 As we said before you can't look at one section without  
4 looking at the overall effect of tax.

5 THE CHAIRMAN: I don't know. Perhaps you are  
6 correct, it should be depleted before these expenses,  
7 but I am not sure that your argument has any validity,  
8 that it therefore becomes a penalty or something  
9 approaching a penalty to do exploration work. - They do  
10 exploration work because they expect more income in the  
11 future. You would expect government to pay for explora-  
12 tion?

13 MR. PEARSON: You refer to capital gains. This,  
14 of course, would only affect certain companies in the oil  
15 and gas business.

16 COMMISSIONER GRANT: With my very limited know-  
17 ledge of this subject would such a provision as you define  
18 in paragraph 22 not cause a discrimination against the  
19 company which is a producer and which carries on its own  
20 exploration and drilling work as against the company that  
21 is not a producer but does do independent drilling and  
22 exploration?

23 MR. PEARSON: You feel this might ---

24 COMMISSIONER GRANT: It would put the producing  
25 company that was doing its own drilling in a more advantageous  
26 position than the other company. It is true the  
27 other company would go into that with its eyes open, but  
28 its costs would be less than the producing company.

29 MR. PEARSON: If you look at it - yes, perhaps  
30 you are right.



D6 1 THE CHAIRMAN: We have quite a long way to go  
2 on this particular subject.

3 MR. PEARSON: I am sure you will hear a great  
4 deal of it further south.

5 THE CHAIRMAN: Estate tax and family business.  
6 You feel that the amount of exemption could be materially  
7 increased so that only those large estates would, in fact,  
8 pay tax.

9 MR. PEARSON: There is another thought we had  
10 after the brief was submitted. I might point out one  
11 thing: the Chamber does feel that although there were  
12 originally some provisions in the recent budget to discou-  
13 rage the sale of Canadian business to non-Canadian resi-  
14 dents the approach seemed to be sort of a penalty approach.  
15 We think it would be better to make it more attractive to  
16 Canadians to retain family businesses rather than make it  
17 less attractive for outsiders to purchase them. This is  
18 sort of a general thought. We do feel as far as family  
19 businesses are concerned increased exemptions may help  
20 and will not hurt revenue very much.

21 Perhaps liberal valuation on investments might  
22 help. The third alternative might be to permit payment of  
2 23 estate taxes over an extended period of time if the bulk  
24 of the assets in the estate were represented by shares  
25 in the family or private business.

26 THE CHAIRMAN: So far as it is possible this  
27 system you would have, the estate taxes would be less  
28 when the family retained the estate as opposed to selling  
29 it to a non-resident.

30 MR. PEARSON: I would think that is the thought.



D7 1 THE CHAIRMAN: Would you say the estate tax  
2 should be less on family-retained business as opposed to  
3 a sale to another Canadian?

4 MR. PEARSON: Another Canadian - I would think  
5 there might be room for some incentive. I think family  
6 businesses have contributed a great deal to the credit of  
7 our country and probably will in the future. You don't  
8 want to get too many big companies.

9 COMMISSIONER PERRY: Would you say liquidity  
10 is the main problem in these smaller businesses?

11 MR. PEARSON: I would say probably liquidity,  
12 although I think there are also problems - when the owner  
13 dies, perhaps the family hasn't got anybody ready to run  
14 it. They may have in the future. I think there are a  
15 lot of problems.

16 COMMISSIONER PERRY: I agree, and I wonder  
17 sometimes whether they are problems concerning which the  
18 estate tax has much relevance.

19 MR. PEARSON: Liquidity - you can quite often  
20 tie that down to estate tax where money has to be raised  
21 to pay the tax.

22 COMMISSIONER PERRY: Haven't these people ever  
23 heard of life insurance?

24 MR. PEARSON: Some people.

25 THE CHAIRMAN: We keep asking the same question:  
26 do you know of any business which has been forced to sell  
27 because of the succession duties and income tax? Our  
28 score has not been good so far. We have heard a lot of  
29 general statements but not many specific statements.

30 MR. PEARSON: I would guess there would be more





28 1 cases of that in Eastern Canada than around here simply  
2 because we are still relatively young and our family  
3 businesses haven't grown to the size where this has  
4 created a problem of importance yet.

5 THE CHAIRMAN: Don't you think most people would  
6 know how to overcome all this by this time?

7 MR. PEARSON: You mean in the west or east?

8 COMMISSIONER GRANT: You might have been late  
9 starters but you have picked up good speed.

10 MR. PEARSON: The people who started are probably  
11 still young.

12 THE CHAIRMAN: You suggest a six months' delay  
13 as your choice of valuation.

14 MR. PEARSON: Yes.

15 THE CHAIRMAN: We have heard various periods of  
16 delay. It must not be too long as to hold up the admini-  
17 stration of the estate.

18 MR. PEARSON: Six months. we felt, would be just  
19 about right. I am sure there are other periods about as  
20 good.

21 THE CHAIRMAN: We will talk about excise tax.

22 MR. PEARSON: Mr. Stewart will field your ques-  
23 tions on excise tax.

24 THE CHAIRMAN: I think for the main part ques-  
25 tions will come from down on the left.

26 MR. STEWART: Mr. Chairman, Mrs. Milne and  
27 gentlemen, there are a couple of points I would like to  
28 clarify. It will only take a minute. First of all, I  
29 would like to say the tenor of this section on excise tax  
30 follows much the same as the first part which is of a



69 1 general nature as to try and get into dealing with specific  
2 sales tax would be far too voluminous and defeat the pur-  
3 pose of the brief today.

4 I would like to comment on one point: our  
5 recommendation 2 which is, "Reduce the number of exemptions  
6 Mr. Gordon has improved this situation to some extent in  
7 his recent budget by eliminating the tax exemptions on  
8 production machinery and apparatus. Any effect of this  
9 however will not be felt until 1965 when the full 11% tax  
10 becomes effective. The regulations regarding materials  
11 consumed or expended require immediate classification.  
12 Certain materials such as filter materials are presently  
13 listed under machinery apparatus and also consumable  
14 materials. Previously it made little difference which  
15 certificate was used since in either case it was exempt  
16 from tax.

17 Too much emphasis is placed on the name of the  
18 article rather than the end use. Certain materials,  
19 because of the nature of the manufacturing operation,  
20 should be exempt from the tax, however, unless it is  
21 specifically listed in the regulations the local authorities  
22 must rule the material taxable until a ruling is obtained  
23 from the rulings branch in Ottawa. Such regulations  
24 should be in more general terms with more leeway for the  
25 local auditor to rule on the taxable status of the materials.

26 THE CHAIRMAN: Mr. Walls.

27 COMMISSIONER WALLS: Considering the 11% sales  
28 tax brings in a shade over one billion dollars and that  
29 it costs less to collect than any other tax we have in  
30 Canada - about half of one percent - we have received



D10 1 very few complaints from manufacturers across Canada as to  
2 this tax. I note you start off by saying manufacturers  
3 generally are unhappy with the current sales tax procedure.  
4 Have you carried out any survey in Alberta or Edmonton to  
5 justify that statement?

6 MR. STEWART: Not a detailed survey. I have  
7 talked to quite a few people in the manufacturing business  
8 about this and pretty well everyone is unanimous on this.  
9 The amount of time spent in trying to keep track of sales  
10 tax and the records and so forth that are necessary become  
11 very voluminous. I might say this results in considerably  
12 more tax being paid than probably should be paid.

13 COMMISSIONER WALLS: Then you also are quite  
14 critical of the limitations of the wording of the Act.  
15 Do you not find that the circulars that are now issued  
16 give a rather complete breakdown as to what is taxable  
17 and what is not taxable?

18 MR. STEWART: That is the manual put out by the  
19 Canadian manufacturers and the C.C.H.?

20 COMMISSIONER WALLS: No, ~~the circulars~~ put out by the  
21 Department.

22 MR. STEWART: These circulars listing details  
23 have not been made available, to my knowledge, to the local  
24 taxpayer.

25 COMMISSIONER WALLS: I note that you deal on  
26 page 22 with the plywood form manufacturers who produce  
27 away from the site in comparison with the contractor who  
28 sets up his form on the site.

29

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E/R/cpw 1

MR. PEARSON: Yes.

2 COMMISSIONER WALLS: And that, of course, applies  
3 assemblers to pre-made concrete and others.

4 MR. PEARSON: That is right.

5 COMMISSIONER WALLS: I want to draw to your  
6 attention that that has been corrected on August 2nd  
7 when Bill 90 was brought down. It now specifically  
8 states that manufacturers or producers otherwise than  
9 on the site of construction, or erection of a building,  
10 are no longer the manufacturer or producer thereof. He  
11 will then pay sales tax on his material and not on his  
12 labour. He is now in exactly the same classification as a  
13 manufacturer on the site.

14 Having listened to your recommendation that the  
15 taxpayer should know what he pays out in taxes, I can  
16 understand your recommendation for sales taxes, but not  
17 so readily understand your recommendation of a turnover  
18 tax because it seems to me that back in 1920 we tried  
19 out a turnover tax in Canada and got rid of it in three  
20 years because of the inequities it created.

21 Now, generally, your turnover tax is a multiple-  
22 stage tax, whereas a sales tax would be a single-stage tax.  
23 Do you really mean a turnover tax? You would welcome a  
24 multiple-stage tax which would then get you back into  
25 indirect taxation, which you apparently want to get away  
26 from.

27 MR. STEWART: One of the things we attempted by  
28 making that as a suggestion was to simplify the regulations  
29 pertaining to taxes as we feel there is an awful lot of  
30 regulations on sales, existing manufacturers' sales taxes,





E2 1 and this might be a way of reducing some of the work  
2 involved in claiming the tax.

3 COMMISSIONER WALLS: I think if you read back  
4 to the trouble they got into from 1920 to 1923, that  
5 turnover tax

6 only covered two stages of turnover: manufacturer  
7 and wholesaler. It was not carried on to the retailer.

8 The last question I have deals with the first  
9 remark you made dealing with the recommendation to greatly  
10 reduce the present number of exemptions permitted: have you any  
11 recommendation as to what type of products should be  
12 exempted under a sales tax.

13 MR. STEWART: I think all your costs going into  
14 a manufacturing operation should be exempted. And again,  
15 that it should not be restricted to naming items. That  
16 is a matter that the sales tax auditor, who is the one  
17 that is ruling on this, or should be the person ruling on  
18 it, should be able to come out and look at your operation  
19 and decide what this particular material is being used for  
20 and determine whether it is actually used in the process  
21 and manufacturing of goods.

22 COMMISSIONER WALLS: If taxes are almost entirely  
23 paid by people, and not by things, what difference does it  
24 make whether the machinery for production is taxed? You  
25 see, one of the troubles that apparently we get into with  
26 this sales tax is that we keep chipping away with exemp-  
27 tions until finally the exemptions accounts for more than  
28 the taxable items.

29 Now, if you are going to maintain a tax system  
30 at all, the more that you can avoid exemptions, it might



E3 1 be better. Do you not agree with that?

2 MR. STEWART: As far as machinery is concerned  
3 it is not something that is used in the manufacturing  
4 directly. It's an end product; purchase capital acqui-  
5 sition.

6 As far as I was concerned, and there is possibly  
7 an argument for considering this, or the manufacturer  
8 paying sales tax on it, but from that point on any of the  
9 fringe materials, and so forth, actually form part of  
10 his operating costs, and there should be no sales tax on  
11 that.

12 COMMISSIONER WALLS: So if we got to a retail  
13 sales tax, as you recommend, we will get away from that  
14 anyway.

15 MR. STEWART: That is right.

16 COMMISSIONER WALLS: If it was a retail sales  
17 tax would you exempt things like food or clothing or  
18 drugs? Have you any thoughts as to the extent of the  
19 exemption that you state that we should have?

20 MR. STEWART: This is rather difficult to say.  
21 Certainly there should be some exemption there. On the  
22 other hand, if everything is taxed right across the board,  
23 what effect would this have? Our sales tax is now 11%.  
24 If everything was taxed, this would bring it down to 2%,  
25 4%, something of this nature, which would be fairly easy  
26 to take.

27 COMMISSIONER WALLS: On the other hand, of  
28 course, it might relieve some of the other taxes you wish  
29 relieved.

30 THE CHAIRMAN: Do I understand under 2(c) you



E4 1 support the elimination of the exemption of building  
2 materials? Hasn't that now been taken care of?

3 MR. STEWART: 2(b)?

4 THE CHAIRMAN: Page 23.

5 MR. STEWART: Yes, I think the latest regulations  
6 that have come out will help this by 1965. However, in  
7 the meantime, we still have the same problem. When you  
8 purchase materials you have got to determine what the end  
9 use is and often this is most difficult to do.

10 THE CHAIRMAN: I don't think we have any further  
11 questions. Is there anything further you would like to  
12 say to us?

13 MR. PEARSON: I don't think so.

14 THE CHAIRMAN: Thank you very much, indeed, for  
15 your submission and coming here today to help us. We  
16 appreciate this very much, indeed. We think we understand  
17 what you have put forth and assure you we will continue  
18 to consider it.

19 MR. PEARSON: Thank you very much for hearing  
20 us, sir.

21 THE CHAIRMAN: We will stand over for a three-  
22 minute recess.

23  
24 --- Short Recess

25  
26 THE CHAIRMAN: All right, Mr. Secretary.

27 THE SECRETARY: Mr. Chairman, Commissioners,  
28 the next brief is being presented by Mr. Allan Welsh.  
29 Mr. Welsh is here to speak to his brief which I now  
30 enter into the record as Exhibit 150.



B5 1 --- EXHIBIT NO. 150: Submission of Mr. Allan E. Welsh.

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SUBMISSION OF MR. ALLAN E. WELSH

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MR. WELSH: Yes, sir.

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Mr. Welsh. You are an accredited public accountant I see.

THE CHAIRMAN: You are in practice as an accountant?

MR. WELSH: Yes, sir.

THE CHAIRMAN: And it is because of your practice as an accountant that you are concerned about this matter of taxation and have very kindly come to tell us about it. This comes about because of your work, doesn't it?

MR. WELSH: Yes.

THE CHAIRMAN: You direct yourself to capital gains and you believe that capital gains should be taxed. You would define capital gain as the excess of the proceeds realized from the sale or exchange of non-inventory capital assets over its book value.

Now, I presume when you say that, you have regard to any kind of a transaction, whether he buys it and sells it within the same week or it takes ten years?

MR. WELSH: Yes, I would say a short-term capital gain would be within six months.

THE CHAIRMAN: You do not draw a distinction, do you, in your submission?

MR. WELSH: No, I don't believe so.

THE CHAIRMAN: And you would have a different rate of tax for a capital gain?





1 MR. WELSH: This is suggested.

2 THE CHAIRMAN: Why?

3 MR. WELSH: Well, I feel that you are recognizing  
4 the principle by the graduated tax on normal income, and  
5 I think that this should be reflected as well in capital  
6 gains.

7 THE CHAIRMAN: Don't stand unless you wish to  
8 do so; but why should a man whose business is buying and  
9 selling properties, does so every day of his life, pay a  
10 different rate of tax than an accredited public accountant?

11 MR. WELSH: I am suggesting a man who does that  
12 would not normally be classed as having any capital gains.  
13 This is his normal business. I am thinking more of the  
14 isolated transaction.

15 COMMISSIONER PERRY: You consider that his  
16 assets are non-inventory assets; would that be right?

17 MR. WELSH: Yes. In the normal course of busi-  
18 ness he would not dispose of them as merchandise.

19 COMMISSIONER WALLS: If a wage earner buys a  
20 home in the city here and puts out considerable expense  
21 in shrubbery, lawn, fencing, improving his property, none  
22 of which he can deduct as expenses, you do not then feel  
23 that when the time comes for him to sell that home, if it  
24 has appreciated in value, that he should have to pay a  
25 capital gains tax?

26 MR. WELSH: No, only over the cost which would  
27 include the improvements.

28 THE CHAIRMAN: Isn't your answer "yes," but you  
29 compute it having regard to the excess over cost?

30 MR. WELSH: That is correct.



E7 1 COMMISSIONER WALLS: How would you record the  
2 cost when the man doesn't show it as an expense in his  
3 income tax?

4 MR. WELSH: I presume he would file it in  
5 defence of the capital profits tax.

6 COMMISSIONER PERRY: Did you ever have any  
7 experience with, I believe it was called the unearned  
8 income tax in this province?

9 MR. WELSH: Yes, sir.

10 COMMISSIONER PERRY: It was repealed recently.  
11 Were there lessons to be learned from that with regard  
12 to the operation of the capital gains tax?

13 MR. WELSH: I feel there were. I think it was  
14 socially desirable but was not politically acceptable  
15 when Alberta became the most prosperous province in Canada,  
16 theoretically.

17 COMMISSIONER PERRY: What was the final rate?

18 MR. WELSH: It was a graduated rate.

19 THE CHAIRMAN: Was that directed at realized  
20 profits?

21 MR. WELSH: Yes.

22 THE CHAIRMAN: Exclusively? It did not extend  
23 to unrealized profits?

24 MR. WELSH: That is right.

25 COMMISSIONER PERRY: Was there much evidence of  
26 the effect on the willingness to sell properties or deal  
27 in properties?

28 MR. WELSH: I think not. It was introduced at a  
29 time when the level of income was so low that there was no  
30 question of it being advisable but later on we could



E8 1 dispose of it politically.

2 THE CHAIRMAN: I don't think I have any more  
3 questions. Does anybody here?

4 COMMISSIONER PERRY: I just wondered if you had  
5 made any effort to estimate the possible revenue from a  
6 tax of this kind?

7 MR. WELSH: No, I didn't. I have about five  
8 minutes of comments here if you feel I might make them.  
9 That will bring your Commission up to time.

10 THE CHAIRMAN: Go ahead, sir.

11 MR. WELSH: Thank you very much. I should  
12 explain, sir, that since you are just coming to Alberta,  
13 when I started to prepare this brief with our Dominion  
14 Association, I received a letter from the Provincial  
15 Government that they were preparing a solution to our  
16 accounting dilemma that might be a solution for all of  
17 Canada.

18 At that time I felt, in fairness, I should not  
19 appear as the President of our local institution. I was  
20 also Chairman of our National Education Committee twice, but  
21 to just explain this problem which is covered here. The  
22 Provincial Secretary said that accountants across Canada  
23 are like Heinz soup, 57 varieties, and he also said that  
24 after studying this subject for seven years, he was more  
25 befuddled than when he started. This, I think, covers  
26 what you people are going to do in terms of a solution.

27 My brief submission advocating a capital gains  
28 tax is prompted by 25 years of battling with income tax  
29 regulations and the Income Tax Department, during which  
30 time I feel that the poor have avoided income tax by being



E9 1 poor, and the rich have increasingly evaded tax by being  
2 rich. To illustrate my point that the rich can evade tax  
3 I could point to one of the hundreds of loopholes which the  
4 Income Tax Department plugged only recently; that of the  
5 merger process to eliminate tax on undistributed surplus.  
6 A tax consultant suggested that this process was so costly  
7 that only large corporations could afford the luxury of  
8 beating the income tax this way.

9 To illustrate my point that our affluent middle  
10 class is a myth and cannot be counted on for much of the  
11 increased taxes required, I point to the fact that credit  
12 buying has increased by 10% per year since 1955.

13 In Edmonton, 75% who are breadwinners earn less  
14 than \$5,000, and yet we are supposed to be reasonably up  
15 in the levels across Canada.

16 In my brief I maintain that a capital gains tax  
17 is socially desirable, advantageous, and practicable. Its  
18 implementation will be blocked by political parties whose  
19 main supporters are those who would find such a tax coming  
20 too close to home. In this respect I must commend you  
21 for holding public hearings on taxation, a vital personal  
22 public concern. Your findings will not be swept under a  
23 rug if an informed public demands action on them. When  
24 the Glasco Commission refused to hold public hearings, I  
25 predicted it would be conveniently pigeon-holed. Since  
26 the war, most amendments to the Income Tax Act have been  
27 more political than practical, oftentimes picayune election  
28 bait. In this vein, a small continuing commission on tax-  
29 tion, independent of parties, would result in a more serious  
30 attack on the philosophy and content of a system which has





101 become ponderous, and indigestible by the layman.

2 To make any tax reforms digestible, Canada  
3 urgently needs an accounting profession to provide:

- 4 1. An intelligible bridge of understanding  
5 between the Government and the taxpayer.  
6 2. A distinctively Canadian business educa-  
7 tion with Canadian terminology, standards  
8 and textbooks. Universities, concentrating  
9 on a single professional body, could provide  
10 much more specialization in taxation, and  
11 eliminate the need to look to American sources  
12 for services. More efforts could be devoted  
13 to research in taxation, in conjunction with  
14 a profession, unfettered by bigotry and  
15 prejudice.

16 I feel that we should be able to have an account-  
17 ing profession responsible for our economic health, the  
18 same way as we have a medical or a legal profession. I  
19 think the sooner we realize our responsibility, the less  
20 legislation we are going to need.

21 If the public is to buy your recommendations, a  
22 job in public relations is necessary, and each taxation  
23 district could use a public relations officer to help the  
24 besieged public who can no longer expect the assessors to  
25 be helpful, according to a recent Appeal Board decision.  
26 Human and civil rights are often involved in tax procedures.  
27 I have tried to deal with generalities as I feel that a  
28 Royal Commission should avoid trivialities, better handled  
29 by politicians.

30 I discussed this with McIntyre in Ottawa. He



El1 1 said "You have got a good man as head of your department."  
2 My point is there are hundreds of cases I would like to  
3 deal with policy on taxation. I can't possibly go to our  
4 district taxation officer and then go back to him on  
5 business deals later.

6 According to a recent Appeal Board decision, I  
7 feel that we are getting into a hot war instead of a cold  
8 war between the public and the taxing officers, if the  
9 assessors are not even to be helpful. I feel that there  
10 are human and civil rights involved in these tax proce-  
11 dures.

12 I have tried to be more general because I feel  
13 you people should deal with generalities and let the  
14 accounting profession implement them. Thank you very much.

15 THE CHAIRMAN: Thank you, Mr. Welsh. Well, I  
16 think we have got your point all right. I think I under-  
17 stand it. I don't think we have any more questions, Mr.  
18 Welsh, but we thank you very much, indeed, for having  
19 put this before us and very ably presenting it. We are  
20 much obliged to you. Good morning.

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1 THE CHAIRMAN: Mr. Secretary?  
2 THE SECRETARY: The next brief, Mr. Chairman  
3 and Commissioners, is being presented by the Farmers'  
4 Union of Alberta. Mr. Edward Nelson, President of the  
5 Farmers' Union of Alberta, is here before you to speak  
6 to the brief and on his left is his assistant. Mr. Harper.  
7 I would like to enter the brief into the record as  
8 Exhibit 151.

9  
10 --- EXHIBIT NO. 151: Submission of the Farmers' Union  
11 of Alberta.

12 SUBMISSION OF THE FARMERS' UNION OF ALBERTA

13 Appearances. Mr. Edward Nelson  
14 Mr. Wm. Harper

15 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
16 morning, Mr. Nelson and Mr. Harper. We are glad to have  
17 your submission which we have read with interest. Before  
18 proceeding to questions is there anything you would like to  
19 say to us?

20 MR. NELSON: There is only one thing I would like  
21 to say.

22 THE CHAIRMAN: Stand if you wish to or not.

23 MR. NELSON: There is a correction that I must  
24 make to begin with. It is on page 3, a typographical  
25 error. There is an '2' in the first paragraph. It  
26 should be over 40% instead of 240%. Another correction,  
27 No. 12 on the same page, I think, would probably read  
28 more sensibly as the steady rise in land taxes although  
29 it is not entirely land tax. I think the emphasis should  
30 be on land tax. I just want to add, while it is the



F2 1 policy of our organization to support the principle of  
2 capital gain taxes we didn't include it in the brief  
3 because there is a question in the mind of farm people  
4 as to the application of capital gain taxes. I was  
5 interested in the discussion you just had because it is  
6 part of the problem that farmers have.

7 The one thing that is the main concern is that  
8 their life's work and the normal increase, the inflationary  
9 increase in our social structure should not be classi-  
10 fied as capital gain for taxation purposes in this way. If  
11 it is possible to overcome this situation we would be quite  
12 glad to have some form of capital gain.

13 I just want to add, since some discussion took  
14 place on estate tax - discussion this morning - I think  
15 I could have got reference to at least half-a-dozen  
16 people here, if I had thought of it. I know of at least  
17 a few instances where people have had to liquidate assets  
18 at a time when it was very difficult to do this sort of  
19 thing and it has created a problem. I think that is all  
20 I can add.

21 We only have tried to make a very general  
22 submission. First of all, we are not, in general, opposed  
23 to taxes. We don't believe that the tax dollar is anything  
24 of less value than anything else. Of course, we support  
25 the submission of the co-operatives on taxation of co-opera-  
26 tives.

27 THE CHAIRMAN: Thank you very much. I think  
28 before we get into this I might ask you one or two ques-  
29 tions about capital gains tax in the United States. You  
30 left yourself a little open; perhaps not wholly. I am





F3 1 curious as to how one could proceed to a capital gains  
2 tax and in any way rationalize the exemption, the added  
3 value to farms. The principle we operate on really goes  
4 back to where the farms are the trees and the products  
5 of the farm are the fruit and we left out a tax on trees.

6 Now, to bring it back into tax we can't tax  
7 everything except a farm - a farm would be one of those  
8 things which would be liable for tax on capital gain if  
9 there was a tax on capital gain. When I am talking about  
10 a tax on capital gain I am speaking about what I believe  
11 is properly capital gain, that is the realization on invest-  
12 ment, not trade, but realization on investment, or, if you  
13 like, the tree as opposed to the fruit.

14 With further development of that I would have  
15 thought that the taxation of farms would fit right into  
16 a tax on capital gains. I would be glad to hear argument  
17 why it shouldn't.

18 MR. NELSON: I think the only argument really  
19 is that the farmer is probably a little different. We  
20 all like to believe we are different, but I believe essen-  
21 tially that the farmer is different in this way: that  
22 the capital gain - the capital asset is a result of  
23 continuous input in labour in various ways which become  
24 the only method of saving that he has. In other words,  
25 all his life's earnings are part of this operation and  
26 probably more so than in any other type of business, and  
27 for that reason some recognition should be taken of it.  
28 We didn't want to deal with it; we are not prepared to go  
29 into details.

30 THE CHAIRMAN: I could think of a good deal on



F4 1 the other side of that argument, but as you say I think  
2 we should perhaps stop there. It would be an interesting  
3 matter to continue the discussion. I hope before we  
4 complete this job we will receive a lot on that because  
5 I think it is important. We would certainly like to know  
6 more about the need for liquidity in estate tax with  
7 regard to the farmer, and I can certainly understand  
8 there could be grave difficulties there. Like everybody  
9 else, I don't understand why the farmers can't  
10 provide for it. Are there special conditions there that  
11 make it more difficult for the farmers to provide for  
12 such taxes than other people?

13 MR. NELSON: I think that is essentially the  
14 human element that is involved. It is so easy to invest  
15 the capital in operating, in operations on the farm. It  
16 doesn't leave him enough to put into life insurance or  
17 anything else. I think the tendency is to put all your  
18 earnings and savings into your operation; either in  
19 cattle or machinery or part of the operation, and for that  
20 reason I think it is the normal thing for a farmer to do.  
21 It is probably not a justifiable thing but it is just one  
22 of the things they normally do.

23 COMMISSIONER PERRY: Like most other people they  
24 probably think they are immortal.

25 COMMISSIONER WALLS: In your submission, on page  
26 2, your paragraph 3, you state the farmer has generally  
27 little voice in setting the price of his produce. I  
28 would like you to enlarge on that because there has been  
29 a statement made ~~that through Marketing Boards~~ the farmer does  
30 set the prices. Is it not a fact that there are only two



F5 1 products: some grains under the Wheat Board, and milk under the  
2 provincial milk marketing legislation? -  
3

4 MR. NELSON: Actually I would even question  
5 whether the price is actually set in those instances.  
6 The price they collect is the market price; that is some-  
7 thing in relation to the world market. It is a price  
8 that is not set according to the cost of production or  
9 any of these items. There is nothing of this nature that  
10 enters into it.

11 COMMISSIONER WALLS: There is a difference  
12 between that and the 70-odd producer marketing board where  
13 they have no control of the price of the product imported or  
14 the price of the product coming from outside the controlled area

15 MR. NELSON: This would be true.

16 COMMISSIONER WALLS: Therefore in your opinion  
17 do producers' marketing boards have very much say in the  
18 price that is set?

19 MR. NELSON: I would say very limited, parti-  
20 cularly in any of these marketing boards that are regional  
21 in nature. I doubt if the national marketing board would  
22 have very much say in it.

23 COMMISSIONER GRANT: Have you a stabilization  
24 policy with respect to hogs in Alberta - the price?

25 MR. NELSON: We have the same policy - it is a  
26 national policy.

27 COMMISSIONER GRANT: It is national - national  
28 stabilization.

29 MR. NELSON: It is based on a hundred hogs or  
30 less and only applies if the market price goes below



F6 1 stabilization price.

2 COMMISSIONER GRANT: The same applies for eggs?

3 MR. NELSON: Yes.

4 COMMISSIONER WALLS: In paragraph 13, on page 3,  
5 you draw attention to the high percentage of your income  
6 that goes for property tax; roughly 5% of the farmer's  
7 net income for the 1940's, and now it is almost twice  
8 that amount. Have you had any means to compare with the  
9 urban citizens in this province, how their tax relates to  
10 income and what amounts of rise that they have had in  
11 comparison to those of agriculture?

12 MR. NELSON: We didn't make a study ourselves.  
13 Professor Hanson of the University of Alberta made a  
14 limited study two years ago in which it was shown quite  
15 conclusively that the farmers' percentage tax-wise was  
16 much higher than the urban was. I think Mr. Harper has  
17 it; we have the figure here. This is one we are not  
18 entirely familiar with and we haven't studied it as we  
19 should have.

20 THE CHAIRMAN: When you said tax did you mean  
21 property tax?

22 MR. HARPER: Yes.

23 THE CHAIRMAN: Could we have a copy of the  
24 study?

25 MR. HARPER: I am sorry. I found I didn't  
26 bring it but I will see the Commission gets a copy.

27 THE CHAIRMAN: Thank you very much. On page 3,  
28 in Table 1, I think it is, you deal with the diminishing  
29 net farm income and the diminishing proportion of net to  
30 gross. That left me wondering about per capita farm





F7 1 income. Would it be diminishing or increasing? I would  
2 suspect increasing.

3 MR. NELSON: Mr. Harper is a little bit more  
2 4 familiar with this table than I am. I will let him  
5 answer the question.

6 MR. HARPER: In reply to that question, sir,  
7 the income of the larger farms is increasing.

8 THE CHAIRMAN: You say it is increasing?

9 MR. HARPER: It is increasing in total. That,  
10 of course, proves little or nothing because his expenses  
11 likewise go along with this. There is, in other words,  
12 a steady decrease in farm population and as a result the  
13 land still being farmed, farms in general, have got larger.  
14 The income of the smaller farmer is steadily decreasing  
15 per person and this is why they are moving off the farm  
16 and the farms are getting larger.

17 THE CHAIRMAN: Would the farm popula-  
18 tion not be diminishing at a greater rate than the net  
19 farm income is diminishing so the per capita return would  
20 be greater than it used to be?

21 MR. HARPER: Yes, I think that is probably true,  
22 although it is comparative, the group of large farmers'  
23 gross is increasing and the large group of small farmers,  
24 their per capita is decreasing.

25 COMMISSIONER WALLIS: The per capita investment per  
26 farmer is also increasing?

27  
28 MR. HARPER: Yes. That is the point I was  
29 trying to make. His cost likewise is increasing and the  
30 proportion of cost to income is not improving; rather the



F3

1 reverse.

2 MR. NELSON: Actually the table does show the  
3 table of per capita income.

4 MR. HARPER: Yes.

5 MR. NELSON: The figure there of \$1,993 million  
6 in 1940 to \$3,040 million in 1961 - the income still remains  
7 very much the same although a more conclusive study that  
8 again was made by personnel from the university indicates  
9 that there is a very clear distinction in groups of  
10 farmers, and this breaks down the middle. About half of  
11 the farmers show considerable increase in income while  
12 the other half show considerable decrease.

13 THE CHAIRMAN: I am puzzled as to what you said  
14 a minute ago about this per capita. Table 1, and I refer  
15 to the heading Farm Income in millions of dollars - that  
16 is not per capita?

17 MR. NELSON: I am sorry.

18 THE CHAIRMAN: I don't think the other one is,  
19 either.

20 MR. HARPER: No, it is not per capita.

21 MR. NELSON: No, I am sorry.

22 COMMISSIONER GRANT: Of your 26,000 members of  
23 the Farmers' Union, would you give a rough estimate as to  
24 how many would be classed as small farmers?

25 MR. NELSON: That is very hard. We have no data.  
26 All we go on is personal contact, personal knowledge. I  
27 find that the membership is made up of a pretty general  
28 cross-section. In other words, we have membership that  
29 is composed of farmers that would be classified in the very  
30 high income bracket, and membership of farmers in the very



F9 1 low income bracket. I would say it is pretty well a  
2 general cross-section of the farmers.

3 COMMISSIONER GRANT: That is what I was leading  
4 up to. When you say a large farmer, would that be on the  
5 basis of acreage?

6 MR. NELSON: No.

7 COMMISSIONER GRANT: Or on income. In other  
8 words, a man specializing in hogs and poultry could be  
9 in the category of a large farmer although he actually  
10 owned a small acreage?

11 MR. HARPER: That is right.

12 THE CHAIRMAN: I would like to go back to this  
13 per capita matter again if I might. I was thrown a little  
14 bit by your suggestion that this was per capita.

15 MR. NELSON: I should have kept my mouth shut  
16 and left it to Mr. Harper.

17 THE CHAIRMAN: If this were per capita what would  
18 the results be? I could tell if I knew what the farm  
19 population was, which I believe is diminishing fairly  
20 rapidly.

21 MR. HARPER: One-and-one-half percent a year,  
22 and this is unchanged since the beginning of the war.  
23 We now have something like 58,000 in what are known as  
24 commercial farms in Alberta. At one time, about 25 years  
25 ago, this was around about 80,000.

26 THE CHAIRMAN: The average size of the farm  
27 would be that much proportionately larger or even more;  
28 the acreage in proportion would be at least as great?

29 MR. HARPER: Yes, I would think a little more.

30 COMMISSIONER GRANT: These farms that have been



F10 1 vacated - have they been absorbed by the larger units  
2 or abandoned?

3 MR. HARPER: No, they are not being abandoned.  
4 They are being absorbed. The neighbour who has fairly  
5 expensive equipment to keep, feels he can handle another  
6 quarter section with the same equipment so he picks it up  
7 as soon as he can get it.

8 COMMISSIONER PERRY: I have had difficulty to  
9 accept your sweeping statement that business can pass on  
10 all its tax and the farmer can't pass any of his. We  
11 have had evidence before us which has disagreed violently  
12 as to how much tax business can pass on. You say the  
13 consumer actually pays the tax because there is no other  
14 source from which it can come. It could easily go back  
15 against the shareholders, to the shareholders of the  
16 company in reducing earnings to them.

17 MR. HARPER: If this business is going to remain  
18 competitive and keep their shareholders they must, after  
19 all, in the last analysis, pay shareholders reasonable  
20 returns on their money or they wouldn't stay there.

21 COMMISSIONER PERRY: Quite right. That is one  
22 of the problems encountered. In other words, you have  
23 made this assumption in which I don't believe, in view of the  
24 wide diversity of opinion as to what does happen to tax  
G/A/R/dpt 25 on business - it is even claimed by some experts in a  
26 short run tax charges cannot be passed on at all. I know  
27 you are thinking of taxes on commodities, sales taxes,  
28 but the prime tax on business is the corporation profits  
29 tax, the result of which, under some sets of circum-  
30 stances, is that the shareholders earn considerably less





1 than they had expected to earn, simply because the tax  
2 could not be passed on in prices.

3 MR. NELSON: Isn't the reason that the tax is  
4 not passed on, in some instances, merely the competition  
5 within this type of business, and that if this were not  
6 so, it would be recovered by higher prices applicable  
7 to the business concerned?

8 COMMISSIONER PERRY: There would be a great  
9 variety of reasons as to why it could not be passed on.

10 THE CHAIRMAN: But the reasons you give your-  
11 self might be extremely good reasons. In the case of some  
12 corporations, the prices are set outside of Canada,  
13 in world markets, and there are many in the industry who  
14 sell their products outside of Canada.

15 COMMISSIONER PERRY: On the other hand, I  
16 would suggest if the prices being paid to farmers were not  
17 giving him reasonable compensation for all his costs,  
18 including taxes, that the rate at which the farm popula-  
19 tion was reducing would not be 1 1/2% a year, but 100% a  
20 year.

21 MR. HARPER: There is the fact, of course, the  
22 farmer has to choose his alternative. He couldn't very  
23 well walk off. What would he do?

24 COMMISSIONER PERRY: In the long run I suggest  
25 this part of  
26 the economy must have its costs met, otherwise it would  
27 not survive.

28 MR. HARPER: I am reminded of the remark that  
29 one farmer made a short time ago. I discussed this with  
30 him a year or so ago, and he said, following the loss of  
a crop through bad Fall weather, that he had lived for the



G3 1 past year on the paint off his barn.

2 In other words, a farmer can allow his capital  
3 assets to depreciate for a very long time and continue  
4 farming. This is the point.

5 COMMISSIONER PERRY: It can't go on forever and  
6 your implication is it does go on forever.

7 MR. NELSON: Unfortunately, I think it goes on  
8 for most of the lifetime of quite a few farmers. The  
9 only means of livelihood they have is what they do with  
10 their bare hands and it's sort of a survival program  
11 which I don't think any other part of our society would  
12 accept.

13 COMMISSIONER GRANT: For the benefit of the  
14 Commission, I wonder if you would review the products of  
15 the farm which are now influenced by price stabilization?  
16 Grain is one.

17 MR. NELSON: I am not so sure that grain is  
18 limited in the world stabilization program. In the world  
19 wheat agreement it is part of it, but outside of that  
20 there isn't any.

21 COMMISSIONER WALLS: I think what Mr. Grant  
22 is getting at, grain is listed under the Price Stabilization  
23 Act but has never been used. There are a number of  
24 products that are listed that have never been used.

25 COMMISSIONER GRANT: For instance, in the  
26 United States very recently they had a vote as to whether  
27 or not they wanted a fixed price, did they not? They  
28 decided they did not want it. They wanted grain to find  
29 its own price level.

30 Now, you have price stabilization with respect



Q<sup>4</sup> 1 to pork?

2 MR. NELSON: I wouldn't call it price stabiliza-  
3 tion. Again, it's a type of support program that guaran-  
4 tees that for a certain quantity of a product you are not  
5 going to get less.

6 COMMISSIONER GRANT: Eggs are in the same  
7 category?

8 MR. NELSON: Yes, but again not a stabilization  
9 price.

10 COMMISSIONER GRANT: Then you have fluid milk  
11 which has a fixed price?

12 MR. NELSON: That is right.

13 COMMISSIONER GRANT: There is no fixed price  
14 with respect to beef?

15 MR. NELSON: Well, it, too, can come under the  
16 Stabilization Act when it gets below a certain figure.

17 COMMISSIONER WALLS: But it never has?

18 MR. NELSON: No.

19 COMMISSIONER GRANT: Your objection, then, to  
20 the fluctuation in the price would not be corrected by  
21 bringing more products under this program?

22 MR. NELSON: No. I think it's a question of  
23 how the program is administered. This would be the only  
24 thing.

25 COMMISSIONER GRANT: Would you want it extended?  
26 Just take, for instance, pork. It is limited now to the  
27 first 100 pigs that are marketed. Would you want it  
28 extended beyond that? It was extended beyond that, and  
29 that gave rise to abuses, didn't it?

30 MR. NELSON: Of course, there happens to be two



Q5 1 points of view on this particular problem, and that is that  
2 the question of whether price is going to be a support  
3 price, or whether it's going to be a stop loss price  
4 nobody, of course, can say exactly where this one figure  
5 ends and the other one begins.

6 As far as our organization is concerned, we  
7 support the principle of a limited number of hogs, or  
8 limited quantity, supported at a higher price; that price  
9 to have some bearing on the cost of production.

10 Now, other people maintain that this is an  
11 incentive to higher production which, of course, would  
12 eliminate the benefit in the long run, so this is where  
13 it becomes difficult to translate, but our policy has  
14 been to support the product required for home consumption  
15 at a price commensurate with the cost of production.

16 COMMISSIONER GRANT: You do say in the brief,  
17 and what my questions are directed to is a sentence in  
18 paragraph 3 on page 2 in which you say that farm income  
19 is far from stable.

20 MR. NELSON: Yes.

21 COMMISSIONER GRANT: I was trying to find out  
22 if the reason for it is that the support prices that  
23 apply to certain products are not adequate.

24 MR. NELSON: The stability, of course, is depen-  
25 dent on the product and farming being what it is, you are  
26 dependent on nature and everything else. This aggravates  
27 your problem

28 COMMISSIONER GRANT: Therefore, you are coming  
29 down to the exigencies of the weather?

30 MR. NELSON: Yes, that is part of it.





66 1 COMMISSIONER GRANT: With that in mind, the  
2 farmer has now the opportunity of averaging his income  
3 over a five-year period.

4 MR. NELSON: Though this certainly has been an  
5 advantage to farmers and something that farmers can use.  
6 Whether it is an advantage to them over anybody else, I  
7 don't believe - I don't think that they gain any advantage  
8 over anybody else, but it's certainly a just method and  
9 has been invaluable to farmers as such.

10 COMMISSIONER GRANT: My questions are not  
11 directed to you in such a way as to try to trip you up,  
12 or anything of that sort, but to get a better understanding  
13 of your problem, because I personally am sympathetic to  
14 your problems as farmers, but in order to be of assistance,  
15 we must understand them.

16 THE CHAIRMAN: Moving on to co-operatives, which  
17 I see you make comments on: you say that it is neither  
18 legally nor morally justified for any increase of taxation  
19 upon co-operatives.

20 I would assume from that that you are not  
21 quarrelling with whatever taxes now fall on co-operatives.  
22 You are quarrelling with any further taxes on co-operatives.  
23 Therefore, it is not immoral nor illegal to tax co-opera-  
24 tives, of course, as they are now taxed. You say this  
25 because the co-operative is nothing more than a machine  
26 designed for the members to serve themselves.

27 You deal with it as though it is an extension  
28 of themselves, and being of themselves should not be taxed  
29 as something separate. There is considerable difficulty,  
30 as you well know, in this area, or you wouldn't have drawn



37 1 our attention to this. The Canadian tax scheme is to tax  
2 the owners of business measured by the profits made by  
3 business, so far as income tax is concerned. There are  
4 other points. It has been said to us that a co-operative  
5 is a business, buys and sells, and if it buys and sells it  
6 is a business the same as if the members of the co-operative  
7 had incorporated the business to do this in the ordinary  
8 way as people not in co-operatives do it.

9 If that is the case, perhaps it should be taxed  
10 along with other people who pay taxes. Of course, the  
11 other side of it is, if they are taxed on income, they  
12 can price out; reduce their prices. It certainly makes a  
13 measurement very difficult indeed. Before we get  
14 to measurement, I have some difficulty with the principle  
15 as to why co-operatives are not paying taxes.

16 I.R. NELSON: I am not prepared to go into a  
17 long-winded statement and philosophy here today, but I  
18 think that probably eventually there will be a clearer  
19 definition of the difference between a co-operative and  
20 the private type of business. At least, I feel that this  
21 eventually will come about, and until this I suppose that  
22 the clarification will be rather difficult, at least in  
23 the minds of those people who are not directly connected  
24 with the co-operative.

25 What we have said here is that a co-operative  
26 is essentially a machine that individuals decide to use.  
27 Now, in our minds the co-operative, for the purpose of  
28 creating a service, is no different than a business  
29 machine, such as a combine or any other kind of machine  
30 that we use. We use it for a specific purpose.



G8 1           The co-operative is designed to do that specific  
2    job and is not in the field of finding other means of  
3    making income, or anything like that; just doing the job  
4    of getting either goods or service to the farmer or in  
5    the marketing field, and we believe that basically it is  
6    designed to be a co-operative in the same regard as a busi-  
7    ness is designed to gain income from the capital investment  
8    and the transaction itself.

9           THE CHAIRMAN: It seems to me that where it is a  
10   producer co-operative, the benefits of that go back to the  
11   members, and if they are not taxed with the co-operatives,  
12   they are taxed as members. Would that not be so?

13          MR. HARPER: We do pay taxes on the actual  
14   return from the marketing co-op, sir.

15          THE CHAIRMAN: The benefits of that return are  
16   taxed?

17          MR. HARPER: Yes. On the other hand, the return  
18   which you get, dealing with the market co-op, is simply  
19   part of the price of your goods. You deliver wheat to a  
20   grain marketing co-op. They give you a price for it, but  
21   they retain a portion of the return to meet the necessary  
22   marketing costs.

23          THE CHAIRMAN: The higher price, the more tax  
24   you pay?

25          MR. HARPER: Well, yes, exactly. The higher  
26   income, the more taxes you pay, and when the deal is all  
27   set up, you get back any return of that money which they  
28   made, which they did not need in order to provide for the  
29   service of marketing of the grain. That is part of your  
30   tax and is declared on your income tax return and every



69 1 farmer pays taxes on it.

2 THE CHAIRMAN: Consumer co-operative seem to be  
3 fraught with far more problems because what the consumer  
4 co-operative is doing is endeavouring to secure for the  
5 members a better price for their living requirements.  
6 Living requirements are something apart from taxation.  
7 They are not deductible from tax. Therefore, to the  
8 extent they reduce their living costs, because this one is  
9 better off, I would have thought consumer co-operatives  
10 should be looked at having regard to the price it sells  
11 between the co-op and the individual, as to whether that  
12 should not be a measurement there, which is the market  
13 test, or something very close to a market test.

14 MR. HARPER: May I try to draw an analogy, sir?

15 THE CHAIRMAN: I wish you would help here on  
16 this.

17 MR. HARPER: Let us assume that a businessman  
18 handles men's suits, and he sends one of his employees  
19 down to Eastern Canada and says, "I want you to buy me  
20 from a manufacturer, 100 men's suits of an approximate  
21 quality and the same price as you got last year." You  
22 will, therefore, be able to pay up to \$50 a suit. This  
23 man comes back, having bought the 100 suits, and he  
24 says, "I made a very good deal. I got them for \$45  
25 instead of \$50." I don't think there is any justification  
26 why this businessman should pay tax on that \$5 but this  
27 is precisely what a co-operative does.

28 We can set up a co-op and we say, "We want you  
29 to get us certain materials which we will require, and  
30 here is the money to get them," and when the deal is over,





G10 1 the co-op says, "We managed to get them at slightly less  
2 than that. Here is the remainder of your money back."

3 The money never belongs to the co-operative  
4 in any sense of the word. The money was always the  
5 members' money and the co-operative is accountable to the  
6 members for every cent of it and must return it.

7 THE CHAIRMAN: How do you support the fact  
8 a co-operative is not an organization which did own the  
9 article? It seems to me that the co-operative is an  
10 organization that went out and bought that. The individual  
11 didn't; the co-operative bought it.

12 MR. HARPER: This is a matter of procedure, sir.

13 THE CHAIRMAN: Yes, but procedure is important  
14 in these matters.

15 MR. HARPER: Basically these goods are provided  
16 to meet the needs of the members who own this entire  
17 set-up.

18 MR. NELSON: It seems to me that the main  
19 problem here would be that because of the society, the  
20 group that we live in have certain concepts of business  
21 practice, and since the co-operatives are not changing  
22 this, to any great extent - but this does not mean  
23 co-operatives couldn't change. It could use a different  
24 method entirely.

25 A member could say, "Well, if this has raised  
26 a problem in that the goods become identified with an  
27 institution," simply because we use the old method, then  
28 we would turn around and say, "We will change this whole  
29 process and hire you as an intermediary of some kind."

30 THE CHAIRMAN: As an agent.



G11 1 MR. NELSON: As an agent. I will give you so  
2 many dollars to buy me so many dollars worth of goods,  
3 and whatever its cost is, I will add that to it after  
4 the process is all over.

5 In other words, the old identifying mark which  
6 is used when you set a price on a product will cease.  
7 This could very well happen. That is the reason, it seems  
8 to me, the whole operation is a different operation than  
9 the normal one.

10 THE CHAIRMAN: I wonder if that is more likely  
11 to happen with the merchants in the City of Toronto,  
12 where I live, becoming co-operatives, because people like  
13 myself decide we can get our goods cheaper if we partici-  
14 pate in the local village stores, if you like, and turn  
15 that into a co-operative, and pool all our purchases  
16 there.

17 If that keeps on going, of course, we will  
18 develop the co-operative system to such a point that we  
19 will greatly change the balance of our taxes.

20 MR. NELSON: I think this is possible, but this,  
21 of course, means that you will find a different tax base.  
22 At the present time, we are paying income taxes but the  
23 only thing that I can see that is different at the present  
24 time is that the merchant who invests his capital in the  
25 business of servicing the general public does that with a  
26 view of making a profit on the operation and he is taxable  
27 on that profit.

28 In a co-operative, Mr. Harper, myself, and all  
29 other people in the community, decide that we want to do  
30 exactly the same thing as that merchant is doing and are



1 taxable in exactly the same way as he is and any profit  
2 that we make on our own operation is taxed for income  
3 tax purposes.

4 If you change the operation from this one  
5 contract, and spread it all over the total group, it  
6 simply means that there may have to be a different appli-  
7 cation of its income tax and the individual's capacity  
8 to pay will govern whether they are taxable or not.

9 MR. HARPER: It really comes out to the individual  
10 whether he pays. A dollar in taxes or a dollar in profits,  
11 he has still paid a dollar.

12 COMMISSIONER GRANT: I wanted to ask you, Mr.  
13 Harper, about a previous statement which you made with  
14 regard to the producer or the marketing co-op in which  
15 you said that the dividend, the patronage dividend, was  
16 really a part of the price of the product.



H/PB/dpw 1

You receive that back from

2 the producer co-op if you market your product through the  
3 producer co-op. Now, if you had the opportunity you might  
4 be able to market that product either through the producer  
5 co-op or through a private company.

6 MR. HARPER: You have that opportunity.

7 COMMISSIONER GRANT: In which case, if you  
8 market it through the private company you would receive  
9 the same price as you would receive if you marketed it  
10 through the producer co-op, would you not?

11 MR. HARPER: Not necessarily. The price  
12 generally which you receive is the same. That is to say  
13 you sell a dressed chicken for \$1 in either case, but the  
14 difference would be that the co-operative, presumably,  
15 sells this for \$1.25 and they may be able to save five  
16 cents and turn it back to you. Their operation does not  
17 include the matter of profit which the other person gets.  
18 It comes back to you as a portion of the price of the  
19 product and you are taxable for it. You must declare it.

20 COMMISSIONER GRANT: But not the consumer co-op.  
21 On the agency basis - you are being over-charged, any  
22 rebate you get back from your consumer co-op is an over-  
23 charge of the price of the product?

24 MR. NELSON: That is right. I think the distinc-  
25 tion between this in the main is, in the consumer  
26 co-operative the money you use is money that is your  
27 income and tax has been paid on it while on the producer's  
28 side it is income that is not yours until it has gone  
29 through the process of selling.

30 COMMISSIONER GRANT: I was wondering if you





1 apply the same agency test to the producer co-op as you  
2 put to the consumer co-op. It doesn't seem to me it is  
3 the same.

4 MR. HARPER: Of course, it is the opposite side  
5 of the picture. One is selling for you and the other is  
6 purchasing for you, your consumer needs. That is the  
7 opposite side of the picture.

8 COMMISSIONER GRANT: The very fact that you have  
9 to pay income tax on your patronage dividends received  
10 from the ---

11 MR. HARPER: Marketing co-op.

12 COMMISSIONER GRANT: --- would lead me to believe  
13 that that was more in the nature of a dividend as we know  
14 it in a corporation than it would be an increase in the  
15 price of product.

16 MR. HARPER: There are co-ops in which you sell  
17 and you don't get full market price. You don't get full  
18 market returns. You get 80% -- I don't think that per-  
19 centage is set, but say you get 80% on the returns and the  
20 other is kept for administration.

21 COMMISSIONER GRANT: Does the same agency test  
22 apply to the producer co-op as you would to the consumer  
23 co-op?

24 MR. HARPER: I think it does apply. We have  
25 consumer co-operative organizations, C.C.I.L. is an  
26 example, where if I buy a machine - they buy the machine,  
27 buy the farm machine. They pay whatever price they have  
28 to pay on that machine and turn it over to me at what is  
29 the normally accepted going price for the same type of  
30 machine in the community and the difference is used in the



13 1 mechanics of doing the job. To the extent that this  
2 reduces my cost of operation this reduces my depreciation  
3 charges that I could charge on income tax. In reality  
4 it applies to the operations income. It does the same  
5 thing.

6 THE CHAIRMAN: May I interrupt here? We are  
7 dealing in producer goods either in buying or selling  
8 and if they come into one's income ---

9 MR. HARPER: Cost.

10 THE CHAIRMAN: And the income is measured by the  
11 refund unless we were dealing in goods which one uses for  
12 his ordinary day-to-day living it would be an entirely  
13 different matter. It would seem to me that must be where  
14 the distinction is, and we are dealing with it in consumer  
15 co-ops as opposed to producer co-ops. That is the  
16 difference. There are consumer co-ops that are buying  
17 goods for your farm activities and to that extent ---

18 COMMISSIONER WALLS: If you go into a discount  
19 shop, privately-owned discount shop, do you pay tax on the  
20 discount?

21 MR. HARPER: We cover this in our brief. That  
22 is our point.

23 COMMISSIONER PERRY: If you are in business ---

24 COMMISSIONER WALLS: I was talking about  
25 consumers.

26 COMMISSIONER PERRY: If you get a business person  
27 buying from a discount store you have lower costs, higher  
28 income.

29 MR. NELSON: To me it is as simple as this: it  
30 is a question of decisions you make as an individual. If



H4 1 I, as an individual, with other individuals, want to  
2 reduce my cost of living by this method, it has nothing  
3 to do with the operation itself as far as taxation is  
4 concerned. I am still an individual and taxed as an  
5 individual. A person who decides in his wisdom, or other-  
6 wise, to create a service and use that service as a means  
7 to make a living, he is taxable as an individual on the  
8 profit he makes in that operation. Those are the differences  
9 as we see them.

10 THE CHAIRMAN: We have your viewpoint. I think  
11 we understand it. We thank you very much, indeed. It  
12 is a most helpful discussion. You have advanced our  
13 thoughts unquestionably, and that doesn't mean you have  
14 advanced them in the way you wish them to go. I am not  
15 going to say that. We will certainly give consideration  
16 to them. It has been a very helpful morning up to now.  
17 Thank you very much.

18 We will break for three minutes.

19  
20 --- Short Recess

21  
22 THE CHAIRMAN: Mr. Secretary?

23 THE SECRETARY: Mr. Chairman, the next brief  
24 is being presented by Mr. A.M. Holmes of Edmonton. Mr.  
25 Holmes is here to speak to his brief which I shall enter  
26 into the record as Exhibit 152.

27  
28 --- EXHIBIT NO. 152: Submission of Mr. A.M. Holmes.  
29  
30



H5

SUBMISSION OF MR. A.M. HOLMES

1 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
2 morning, Mr. Holmes. Before starting would you tell us  
3 about yourself and your connection with taxation; how  
4 you came to have a deep interest in it?

5 MR. HOLMES: I am a chemist, sir. I am strictly  
6 a taxpayer. Over the past years as I made out my tax I  
7 have had certain questions in my mind as to why they were  
8 this way. It seemed to me that they weren't always -  
9 didn't always seem fair or equal and when this Commission  
10 was formed I thought maybe this is the time for me to  
11 speak. It is strictly as an interested citizen.

12 THE CHAIRMAN: We are delighted, as I said  
13 before, to hear from you. It is a pleasure to us to know  
14 the depth of your understanding and the effort you put  
15 into this matter of taxation.

16 MR. HOLMES: Thank you.

17 THE CHAIRMAN: You put down fifteen recommenda-  
18 tions here, all of which I think are pretty desirable.

19 "Equality of treatment for all taxpayers" -  
20 equality of treatment is a very hard thing to measure  
21 as you recognize perfectly well, and every time an incen-  
22 tive is granted we upset equality. I don't think you are  
23 saying there should be no incentives in taxation?

24 MR. HOLMES: No, I don't say that. I was thinking  
25 more in the personal field, personal income tax.

26 THE CHAIRMAN: You are thinking of equality of  
27 burden?

28 MR. HOLMES: Burden and exemptions - expenses.

29 One of the things that bothers me is that, and there was  
30





16 1 a case in the newspapers not so long ago where a doctor  
2 was allowed \$2,000 exemption on his automobile. I think  
3 this doctor was an anaesthetist and all he did was probably  
4 drive from his home to the office, to the hospital. It is  
5 not as if he was calling on patients and driving from  
6 house to house, which I think would be an acceptable auto-  
7 mobile expense.

8 With the practice - and using doctors as an  
9 example, with the doctors becoming very specialized -  
10 doctors make housecalls no more and yet they still have  
11 the advantage of car expenses or travelling expenses  
12 which the citizens don't have.

13 THE CHAIRMAN: He may have had to rush off to  
14 a call at the hospital and as such needs immediate trans-  
15 portation.

16 MR. HOLMES: I may have to rush off to my plant  
17 if it is going to blow up.

18 THE CHAIRMAN: You, being on salary, are not  
19 entitled to ~~deduct~~ automobile expenses?

20 MR. HOLMES: Right.

21 COMMISSIONER GRANT: If the anaesthetist was on  
22 salary do you think he would be able to deduct that auto-  
23 mobile expense?

24 MR. HOLMES: I don't know.

25 THE CHAIRMAN: I think the answer in the Act is  
26 no.

27 COMMISSIONER WALLS: I am rather disappointed  
28 that the two farmers that appeared before us are not  
2 29 still here. They would have been quite enlightened by  
30 your statement on the first page that they can charge for



H7

1 meals in restaurants and clothing for work. I don't  
2 think they know anything about that. Would you care to  
3 enlarge on that?

4 MR. HOLMES: I didn't mean - I tried to make  
5 that general statement. Some of the things apply to  
6 businessmen and some apply to farmers. I think primarily  
7 with farmers, my argument there is that if they have a  
8 hired man he can do any work around the farm in connection  
9 with home repairs, building a garage, or anything like  
10 that; even making a lawn for the farmer in his front yard,  
11 and the farmer can still charge for this man's wages as a  
12 farm expense.

13 If I build a garage or repair the lawn and I  
14 hire somebody to do this for me I can't charge this as a  
15 necessary - as an acceptable expense.

16 THE CHAIRMAN: I think you have a point. The  
17 difficulty is, of course, I presume, and I am not an  
18 assessor, in achieving perfect assessments in these  
19 matters.

20 COMMISSIONER WALLS: With regard to the house-  
21 keeper, do you feel it would be more fair to deduct the  
22 salary that you would pay to the housekeeper as an expense  
23 against your wages rather than carry over the \$1,000 exemp-  
24 tion that you had when your wife was alive?

25 MR. HOLMES: I think the \$1,000 doesn't cover  
26 very much in the way of a housekeeper.

27 COMMISSIONER WALLS: Wouldn't the \$1,000  
28 exemption be about the equivalent of a \$3,000 income?

29 MR. HOLMES: I don't see that. If I was spending  
30 \$2,000 for a housekeeper and only getting \$1,000 exemption



1 I think I have lost \$1,000 somewhere.

2 THE CHAIRMAN: I think he has got a point. Do  
3 you want to say anything more?

4 COMMISSIONER WALLS: The only point: it seems to  
5 me if you get another \$1,000 exemption off your salary  
6 would that not be equivalent on the tax of \$3,000 of  
7 income that you would have paid out?

8 MR. HOLMES: I see what you mean, yes.

9 COMMISSIONER WALLS: So in reality there isn't  
10 too much difference between the one and the other?

11 MR. HOLMES: I think there would be a difference.

12 THE CHAIRMAN: I don't think we need to proceed  
13 with that. On the matter of interest I am a little  
14 puzzled. I thought I understood. We have to remember  
15 a company's income - paragraph 4, deducting its interest -  
16 it has got to deduct its interest to arrive at its income.  
17 deducting  
18 You can't have income without interest. In the case of  
19 the individual that is not so at all. The individual has  
20 presumably incurred interest charges because he has  
21 borrowed money for personal expenditures or for some  
22 other reason, but not to earn his income. Isn't there a  
23 real difference there?

24 MR. HOLMES: Well, I think you give a truer  
25 picture of what we are doing if we knew exactly how much  
26 interest we were paying. I have heard some talk that newly-  
27 married couples starting up a household should get some  
28 additional tax relief one way or the other, either by  
29 additional exemption - I was thinking if they were allowed  
30 to charge more interest on buying a new house and this  
would, over the years, gradually get smaller and smaller.



I/IR/dpw 1 This would be some sort of graduated relief rather than  
2 saying, "Well, okay, for five years we will allow you  
3 an additional \$1,000 exemption." I don't think this  
4 would be very satisfactory, but if you were to allow -  
5 you might be discriminating against various people. I  
6 think with young people starting to have a lot of expenses,  
7 young children, and all that, this might be a very good  
8 way of allowing this graduated relief for these people.

9 THE CHAIRMAN: To encourage home ownership.

10 MR. HOLMES: Well, to encourage home ownership,  
11 which, according to some authorities, is desirable or home  
12 building, for the economy.

13 THE CHAIRMAN: I suggest we already do that,  
14 to some extent. Perhaps not to the extent you would like  
15 but I would think if mortgage interest was permitted as  
16 a deduction, we would have to do what used to be done in  
17 Great Britain; namely, impute income; all the monies  
18 invested in that house, in order to achieve equity between  
19 the house owner and the man who lived in a rented apartment.

20 Right now, I think there is quite an incentive  
21 to own your own house, if you don't have to borrow all the  
22 money to put into it, because you then cease to pay taxes  
23 on the income which you derive from the money. If  
24 it were not in the house <sup>it</sup> would be in income-bearing secu-  
25 rities, or income-bearing properties, so that in order to,  
26 balance that, there has been in other countries equity  
27 achieved by imputing income, to the money in the house.

28 If you do that, of course, and if you have to  
29 borrow the money, then you must deduct the interest on the  
30 mortgage so that we already weigh things in favour of the





12 1 home owner; perhaps not very much.

2 MR. HOLMES: I was thinking of this case: if I  
3 were to buy a second house, and were to rent it out and  
4 take a mortgage on it, I can deduct the interest that I  
5 pay on that mortgage. Then I think, "Well, if I can do it  
6 on this house, why can't I do it on the one I am living  
7 in?"

8 THE CHAIRMAN: You must understand the house  
9 you have gone and bought to rent out is an investment, and  
10 to arrive at the income from that investment it is neces-  
11 sary to deduct the interest.

12 MR. HOLMES: I prefer to think of trying to run  
13 a family or home as being in the same way as a corporation.  
14 You get certain money coming in.

15 THE CHAIRMAN: You wouldn't pay any taxes, or  
16 income taxes. You would only pay on what you save under  
17 these circumstances.

18 MR. HOLMES: I would say if the family or the  
19 home owner would pay 52% taxes over and above all his  
20 reasonable expense, he would be very well off.

21 COMMISSIONER WALLS: I see you also want to make  
22 the taxpayer knowledgeable of what he is paying out in the  
23 way of taxes. What real advantage does it have to buy an  
24 article for \$2 and pay 24 cents tax as against paying  
25 12.24%? Does it any more let you know the overall cost of  
26 government by doing that? Do you not think it is really  
27 an irritant you are rubbing the consumers nose in  
28 all the time?

29 MR. HOLMES: That is a matter of policy, of  
30 course, but my personal feeling is I think the Government



13 1 is spending too much money. That is my own personal  
2 opinion.

3 COMMISSIONER WALLS: That is outside our terms  
4 of reference.

5 MR. HOLMES: That is outside your terms of  
6 reference, but I think if the taxpayer knew how much he  
7 was paying in taxes at every turn, then he would not be  
8 quite so anxious to vote in people who are going to spend  
9 more money under the guise that it is not going to cost  
10 him anything.

11 If I saw the price of cigarettes go up 2 cents  
12 a package and I saw that that tax was added on - that  
13 that was 2 cents added on to the tax, then I would know  
14 I was the one that was paying for it.

15 COMMISSIONER WALLS: How would you know how much  
16 corporation tax was paid?

17 MR. HOLMES: I wouldn't know that.

18 COMMISSIONER WALLS: Do you not think, if you  
19 are going to apply this philosophy, it must be applied to  
20 all the taxes and not just part of the taxes?

21 MR. HOLMES: Yes, I would go along with that.  
22 If you can find a way to let everybody know how much tax  
23 is being paid by everybody, I would be in favour of that.

24 THE CHAIRMAN: Why concede the point that you  
25 must show all the taxes? It is desirable to show all  
26 the taxes, perhaps, but under what you say here, you can't  
27 do it. Why not show what taxes you are able to? I think  
28 you are being a little too generous to Mr. Walls, aren't  
29 you?

30 MR. HOLMES: I think I mention that in the brief,



14 1 that all the taxes should be shown that are capable of  
2 being shown.

3 THE CHAIRMAN: I think a lot of people - if  
4 they saw that a package of cigarettes, as you say, cost  
5 36 cents, perhaps . . . ought to know they are paying 21  
6 cents in taxes, if that is so. And also when you buy a  
7 bottle of whiskey, you want to know if you are paying most  
8 of it out in taxes. I don't know whether we all stop and  
9 think about it every time we buy, but perhaps it is an  
10 irritant. Perhaps it is a good irritant. It is a matter  
11 of philosophy.

12 MR. HOLMES: I think everybody now knows they  
13 are paying 4% additionally on building materials, but in a  
14 year from now that will be forgotten and just the price  
15 of a piece of lumber is so much.

16 COMMISSIONER WALLS: I notice just before that  
17 part in your brief  
18 . . . you talk about them going back on taxes for six years.  
19 It is now four years. I just wanted to correct that,  
20 except where there is misrepresentation and then, of course,  
21 they can go back as far as they want.

22 THE CHAIRMAN: What is so bad about tax on tax?

23 MR. HOLMES: I think this is getting something  
24 for nothing.

25 THE CHAIRMAN: It may be misrepresentation of  
26 what the tax rate is.

27 MR. HOLMES: I think so.

28 THE CHAIRMAN: But surely if the Government is  
29 going to tax, they will put on a rate that will give them  
30 the same amount of money. It would be the same result



15 1 MR. HOLMES: I think if you want so much, take  
2 it.

3 THE CHAIRMAN: You have got a point.

4 COMMISSIONER WALLS: I wonder if you could  
5 clarify, jumping ahead to paragraph 16, where you said,  
6 the full amount paid by all agencies should be counted  
7 as expenses; that is dealing with medical Now, you  
8 understand, of course, that under Section 27 of the Income  
9 Tax Act if you have a private medical plan, whatever  
10 expenses are paid to the doctors under that plan, you  
11 show it as a medical expense in your income tax. So what  
12 you are trying to get at here is you should charge the  
13 premiums?

14 MR. HOLMES: No. I think only that money paid  
15 out - what I had in mind more was hospital because in  
16 these circumstances if you were to have a Blue Cross Plan,  
17 if they were to pay out money on your behalf over and  
18 above the Government's share, I think the Government's  
19 share should be counted as well. Right now they are paying  
20 - the Government pays \$14.25 a day and I think you pay  
21 \$2 a day. You can count the \$2 a day because that is  
22 something you have paid out, but you have actually paid  
23 out \$14.25 as well in hospital.

24 COMMISSIONER WALLS: I wonder how you would do it  
25 in provinces where we have general sales taxes covering  
26 hospitalization.

27 MR. HOLMES: Through paying that sales tax,  
28 you are paying the premiums. I think it only should be  
29 accredited to the taxpayer when he is ill, of course,  
30 and when he makes use - when illness strikes, that, of





16 1 course, is when he really needs it. He doesn't need it -  
2 if he pays premiums for 10 years and doesn't need it, he  
3 really doesn't need the relief then. He has not been ill,  
4 but when he is ill, this is when he does need the income  
5 tax relief.

6 I also think, from the Government's point of  
7 view, it is better to tax when the money is paid out, or  
8 to give exemption when the money is paid out than to give  
9 exemption in premiums because there are more monies paid  
10 out in premiums than paid out in benefits.

11 COMMISSIONER WALLS: In other words, you want  
12 the hospital insurance handled on the same basis as the  
13 medical insurance?

14 MR. HOLMES: Yes.

15 COMMISSIONER PERRY: I think probably the  
16 real test here is whether any allowance for medical  
17 expenses is needed or justified when you have an insurance  
18 principle. The original deduction was at a time when there  
19 was very limited insurance, where it could be catastrophic  
20 illness which fell entirely on the individual but as soon  
21 as you reach a point where you have so many schemes in  
22 effect, this blow has been smoothed out over the lifetime,  
23 then one could even say there is much less justification  
24 for the allowances at all.

25  
26 MR. HOLMES: There are a number of inevitable  
27 expenses that families must provide during an illness for  
28 which they cannot get receipts. Some of these have to do  
29 with moral points, keeping the patient happy, which are  
30 probably just as important. Even driving back and forth



17 1 to the hospital has added to your cost, or whether you  
2 take the bus or your car doesn't matter, but all these  
3 things add up to providing a great deal of inconvenience  
4 and cost to a family, which you cannot account for just in  
5 hospital or medical and if you have these things, they are  
6 good, because you can get receipts for it and you can  
7 account for it and, therefore, they would help to compensate  
8 for the other things.

9 COMMISSIONER GRANT: You refer to the tax which  
10 a widow is called upon to pay on a pension which she  
11 receives on the death of her husband, and you refer to  
12 recent publicity in the press in that regard, and you  
13 state that your understanding is that the tax is based on  
14 today's cash value.

15 I don't know just what is meant by "today's  
16 cash value, but I would like to say to you that for  
17 estate tax purposes the pension is capitalized on the  
18 basis of her life expectancy and an estate tax is then  
19 paid on that capitalization value. Insofar as the income  
20 tax is concerned, she is taxed only on that portion  
21 that is income.

22 You probably appreciate that. I don't know that  
23 paragraph 13 in your brief says so.

24 MR. HOLMES: Thank you.

25 COMMISSIONER GRANT: The second thing, paragraph  
26 14: I would just like to point out there your objection is  
27 that some people, if they have knowledge of the law, may  
28 have their affairs so arranged as to save estate taxes  
29 on their death and you think that the recognition of this  
30 is a detriment to the person who has not knowledge of the



18 1 law and does not so arrange his affairs.

2 MR. HOLMES: Yes. None of us know when we are  
3 going to die and I think a lot of this, being able to do  
4 this, depends on having the time to arrange it ahead of  
5 time. There are certain things where there is a time  
6 limit on it - there are certain things done within three  
7 years of death, or something like that, or the time is  
8 expired on it. I must confess a lot of ignorance in this  
9 matter.

10 COMMISSIONER GRANT: I think if your suggestion  
11 there were to be carried out, it would deprive the person  
12 who wishes to give thought to these matters and who says,  
13 "I am not here for all time. I should get my affairs in  
14 order." The vigilant person is then going to be deprived  
15 of an opportunity to make use of a law which has been  
16 regarded as a legitimate type of legislation.

17 MR. HOLMES: Yes, I appreciate your point in  
18 this matter but then I wouldn't like to be penalized if  
19 I were to walk out this door and get hit by a car going  
20 across the street.

21 THE CHAIRMAN: You have a way of avoiding that,  
22 as anybody else has, by consulting people who are available  
23 and getting your affairs in order. Any more questions?

24 Thank you very much, indeed. I am sorry that  
25 you do not wish to make recommendation on rates of taxes.  
26 They are certainly open to suggestion. However, thank you  
27 very much, indeed, for your assistance. We will stand over  
28 until tomorrow. Mr. Secretary?

29 THE SECRETARY: I would like to read two more  
30 briefs into the record, Mr. Chairman, if I might. There



19 1 is a brief here from the City of Edmonton, the Purchasing  
2 Division of the City of Edmonton, which was received on  
3 the 17th of July in our office in Ottawa and I would like  
4 to enter this as Exhibit 153.

5

6 --- EXHIBIT NO. 153: Submission of the City of Edmonton.

7

8 THE SECRETARY: Likewise, there is a short brief  
9 presented by Mr. E.L. Strack of Edmonton, received just  
10 this week, which I would like to enter as Exhibit 154.

11

12 --- EXHIBIT NO. 154: Submission of Mr. E.L. Strack.

13

14 THE SECRETARY: Our first participant tomorrow  
15 is the Canadian Utilities Limited, at 9.30.

16

17 THE CHAIRMAN: Thank you verymuch. We will  
18 stand over until 9.30 tomorrow morning.

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19 --- Adjournment

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# ROYAL COMMISSION ON TAXATION

## HEARINGS

HELD AT  
EDMONTON  
ALTA.

VOLUME No.:

40

DATE:

AUGUST, 20 1963

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3 ROYAL COMMISSION ON TAXATION

4 Hearing held in Court Room  
5 No. 8, Court House, 100 St.  
6 & 102A Ave., Edmonton,  
7 Alberta, on the 20th day of  
8 August, 1963.

9 COMMISSION:

10 MR. KENNETH LEM. CARTER -- Chairman

11 MR. J. HARVEY PERRY

12 MR. A. EMILE BEAUVAIS

13 MR. DONALD G. GRANT

14 MRS. S.M. MILNE

15 MR. CHARLES E.S. WALLS

16  
17 LEGAL ADVISER:

18 MR. J.L. STEWART, Q.C.

19  
20 RESEARCH DIRECTOR:

21 PROF. D.G. HARTLE

22  
23 SECRETARY:

24 MR. G.L. BENNETT

25  
26  
27  
28 -----  
29  
30



ROYAL COMMISSION OF TAXATION

HEARINGS HELD AT THE CITY OF EDMONTON, ALBERTA

August 20, 1963

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VOLUME No. 40

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TORONTO, ONTARIO

Edmonton, Alberta.

Canadian Utilities Limited August 20, 1963  
and  
Canadian Western Natural Gas Volume No. 40  
Company Limited - Northwestern  
Utilities Limited

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A/EB/dp1 --- On commencing at 9.30 a.m.

2 THE CHAIRMAN: Mr. Secretary, I think we have  
3 reached 9.30.

4 THE SECRETARY: Mr. Chairman, this morning we  
5 have two briefs being presented and due to their simi-  
6 larity the Presidents of the two companies concerned have  
7 agreed to speak to these briefs jointly and respond to  
8 your questions together in a joint fashion. The first  
9 brief is being presented by the Canadian Utilities  
10 Limited. Mr. J.C. Dale, the President, is here to speak  
11 to the brief. The second is a brief of the Canadian  
12 Western Natural Gas Company Limited and Northwestern  
13 Utilities Limited, with Mr. Bruce F. Willson, President,  
14 before you to speak to his brief. I would like to enter  
15 the Canadian Utilities brief into the record as Exhibit  
16 155, and the Canadian Western Natural Gas Company Limited  
17 and the Northwestern Utilities Limited brief as Exhibit  
18 156.

19  
20 --- EXHIBIT NO. 155: Submission of Canadian Utilities  
21 Limited.

22  
23 --- EXHIBIT NO. 156: Submission of the Canadian Western  
24 Natural Gas Company Limited and  
25 Northwestern Utilities Limited.  
26  
27  
28  
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SUBMISSION OF CANADIAN UTILITIES LIMITED

Appearance: Mr. J.C. Dale

SUBMISSION OF THE CANADIAN WESTERN NATURAL

GAS COMPANY LIMITED and NORTHWESTERN

UTILITIES LIMITED.

Appearance: Mr. Bruce Willson

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Mr. Dale and Mr. Willson. I am glad that you have thought the best way of dealing with this is jointly, or together. I think perhaps before we get into the meat of your submission it might be helpful if we learned a little more about Canadian Utilities Limited and also Canadian Western Natural Gas. Mr. Dale, could you tell us a little bit about Canadian Utilities beyond what we have?

MR. DALE: Canadian Utilities is an electric operating company and their major service area is east and central Alberta, northern part of Alberta. They have a subsidiary called Murray Light and Power which operates in the Tar Sands area and two other subsidiaries operating in the Yukon; Yukon Hydro and Yukon Electric. We have some 50,000 customers. Our service area is mainly rural, rural Alberta, and widely scattered. As a result we have a multiplicity of small plants rather than one large one serving the entire area.

It is generally inter-connected with those in Alberta and with what they call the Alberta Grid; Alberta Power Limited and the City of Edmonton also ties in with that, and our isolated plants in the Yukon are also.

THE CHAIRMAN: And Tar Sands?

MR. DALE: Just a small plant.



A3

1 THE CHAIRMAN: Would the greater proportion of  
2 your sales volume be residential?

3 MR. DALE: Oh, yes, very little large industrial  
4 load in the area we serve.

5 THE CHAIRMAN: Do you deal with gas?

6 MR. DALE: We use it in Canadian Utilities.

7 THE CHAIRMAN: You don't buy and distribute it?

8 MR. DALE: No, not Canadian Utilities.

9 THE CHAIRMAN: You use it for generating electri-  
10 city?

11 MR. DALE: In some instances, yes; in some loca-  
12 tions. The small plant in the Yukon is a small hydro  
13 plant. The rest are all thermal, using coal, oil, natural  
14 gas and steam plants, and diesel plants, and gas turbine  
15 plants.

16 THE CHAIRMAN: Hydro in the Yukon is at White-  
17 horse?

18 MR. DALE: Whitehorse, yes.

19 THE CHAIRMAN: Mr. Willson, supposing you tell  
20 us a little about Canadian Western Natural Gas.

21 MR. WILLSON: Canadian Western Natural Gas  
22 service has been operating in the southern part of the  
23 province since 1912. It serves the City of Calgary and  
24 the City of Lethbridge and about 80 other communities  
25 generally in line south of the City of Red Deer. It  
26 serves a little over 100,000 customers. About 90,000  
27 of those would be residential users. About 40% of  
28 Canadian Western sales would be for residential purposes.

29 About 25% would be - 25 to 30 percent would be -  
30 for commercial purposes, and about 30 to 35 percent would



A4 1 be industrial sales. The company's sales are currently  
2 about 45 billion cubic feet a year, and it has a system  
3 of peak demand of about 300 million cubic feet per day  
4 which would give you a yardstick.

5 The peak demand of Trans-Canada Pipe Lines'  
6 system now is about one billion cubic feet a day, so on  
7 a peak basis Canadian Western would be about 30% of  
8 Trans-Canada, but on an annual basis - a lot of our  
9 sales are heating, and our annual load factor is only  
10 about 40%.

11 Northwestern Utilities, which is the other  
12 company which is party to this brief, serves Edmonton.

13 THE CHAIRMAN: What is the relationship between  
14 the two companies?

15 MR. WILLSON: The two companies are parallel  
16 operating companies, you might say. The majority of the  
17 common stock of Canadian Western is owned by International  
18 Utilities Corporation, which is a U.S. company resident in  
19 Canada, with head office in Toronto. International owns  
20 87% of the common stock of Canadian Western and it owns  
21 100% of the common stock of Northwestern.

22 Northwestern serves about 80 communities  
23 generally in the central part of the province, much the  
24 largest community being the City of Edmonton. It also  
25 serves the Cities of Red Deer, Camrose and Wetaskwin,  
26 and about 75 other communities. Its annual gas sales  
27 are about 60 billion cubic feet and the peak load is  
28 about 350 million cubic feet per day.

29 It has a somewhat higher percentage of  
30 industrial sales than Canadian Western. Its sales, as I



A5 1 recall, are about 35% residential, about 30% commercial,  
2 and the balance, about 35% would be industrial. Together  
3 the two companies, I would estimate, serve about 70% of the  
4 total gas business in the Province of Alberta. There are  
5 a number of other companies in the gas business in  
6 Alberta as well as some municipalities that are in the  
7 gas business as well.

8 I might say, Mr. Chairman, I have copies of the  
9 annual reports of the companies here if they would be  
10 helpful to the Commission.

11 THE CHAIRMAN: Yes, if we could have them before  
12 us we would like to do so. Do you publish a separate  
13 statement for the subsidiaries? This is Canadian Western  
14 and this is Northwestern. The parent company's statements,  
15 are they published?

16 MR. WILLSON: Yes, they are. I don't have a  
17 copy with me, but we can certainly supply the Commission  
18 if you would like to have copies. The annual reports  
19 contain a map which shows the service territories of the  
20 two gas companies.

21 THE CHAIRMAN: And these companies restrict  
22 their operations to the distribution of gas; am I correct?

23 MR. WILLSON: No. I should have said there  
24 that they are producing, transmission and distribution  
25 companies. Canadian Western Gas, because of the geological  
26 nature of the southern part of the province, where the  
27 gas fields are rather deep and expensive to explore, have  
28 purchased gas from producing oil companies.

29 Northwestern Utilities operates in the  
30 central part, where the gas fields are shallower and





1 conducive to drilling and exploration work. It used to  
2 produce all its own gas. It now buys about two-thirds  
3 of what it sells and produces the other one-third from  
4 its company-owned fields. The company-produced gas is  
5 used for peak load purposes to meet sharp winter peaks,  
6 but basically we buy the base load gas from oil fields  
7 or condenser fields.

8 THE CHAIRMAN: The balance of the gas from the  
9 Province of Alberta; 30% is supplied by public authorities?

10 MR. WILLSON: No, part of it would be by public  
11 authorities such as the City of Medicine Hat, but there  
12 is another investor-owned utility which serves about 10  
13 or 12 communities, a company called Plains Western Gas  
14 and Electric.

15 THE CHAIRMAN: What is the name of it?

16 MR. WILLSON: Plains Western. It serves Drum-  
17 heller, Pincher Creek, Three Hills and Athabaska.

18 THE CHAIRMAN: That would be owned locally,  
19 I suppose?

20 MR. WILLSON: No, I really don't know too much  
21 about the ownership of it. I think there is quite a bit  
22 of eastern capital in it and quite a bit of American  
23 capital. There are two industrial gas companies that  
24 operate generally in the Edmonton area: Canadian Industrial  
25 Gas Limited, which serves the large Canadian Chemical -  
26 Petrochemical - plant on the outskirts of Edmonton, and  
27 another industrial, Midwestern Industrial Gas, serves  
28 the Sherritt-Gordon plant at Fort Saskatchewan and  
29 supplies gas to the Calgary power plant at Wabamin through  
30 a pipeline owned by another company which supplies natural



A7 1 gas by pump mill at Hinton.

2 COMMISSIONER GRANT: Is that Chemical Industrial  
3 Gas?

4 MR. WILLSON: Canadian Industrial Gas Limited.

5 COMMISSIONER GRANT: It is owned by Canadian  
6 Chemicals?

7 MR. WILLSON: No. It supplies Canadian Chemicals.  
8 It is owned by - Power Corporation now is the largest  
9 shareholder in Canadian Industrial Gas.

10 THE CHAIRMAN: That is pretty well the gas  
11 situation for Alberta. Any further questions?

12 COMMISSIONER WALLS: As I understand it, in natural  
13 gas usage you don't face nearly as much competition  
14 from crown and municipal corporations as you do in the  
15 gas and electricity in this province.

16 MR. WILLSON: I think that would be generally  
17 correct, sir, although there is, from time to time, talk  
18 of take-over, not only of the electric companies but of  
19 the gas utility companies.

20 THE CHAIRMAN: I want to go back to the electric  
21 companies. I don't think we have done as well; we don't  
22 know as much about the electrical distribution. Is there  
23 anything anyone wants to ask?

24 Mr. Dale, you told us something about Canadian  
25 Utilities Limited. Let us carry that forward into the  
26 electrical distribution industry in Alberta. I know there  
27 is Calgary Power also in Alberta. I don't know what  
28 proportion you have. You have 50% of customers; what is  
29 the proportion of Calgary Power and all the other  
30 generators?



AC

1 MR. DALE: There is another company, operating  
2 company, Northland Utilities, which is a sister company  
3 to Canadian Utilities and under the same general manage-  
4 ment.

5 THE CHAIRMAN: Same ownership?

6 MR. DALE: Yes, International Utilities have  
7 the bulk of the common shares. Its operating area is  
8 what we call the Peace River area of Alberta; up the  
9 Mackenzie Highway, and in the Northwest Territories,  
10 to supply the Hay River, which was recently in the news  
11 for all the floods.

12 Calgary Power is three to four times as large  
13 as Canadian Utilities. All the rest of the generation of  
14 the province, like the City of Edmonton, is municipally-  
15 owned - Lethbridge.

16 THE CHAIRMAN: That is not generation.

17 MR. DALE: Yes, generation and distribution  
18 under a plant owned by the City.

19 THE CHAIRMAN: Edmonton?

20 MR. DALE: Edmonton; City of Edmonton. The  
21 City of Calgary owns its own distribution but buys whole-  
22 sale from Calgary Power. Lethbridge and Medicine Hat  
23 are municipal plants and distribution; and various other  
24 points in Alberta, such as Red Deer, et cetera, buy whole-  
25 sale from Calgary Power. They own their own distribution.

26 THE CHAIRMAN: The only publicly-owned genera-  
27 tion is the City of Edmonton?

28 MR. DALE: No, Lethbridge and Medicine Hat.

29 THE CHAIRMAN: They generate too?

30 MR. DALE: Yes, they have their own plants and



A9 1 generate.

2 THE CHAIRMAN: The three cities that generate  
3 electricity would be a small proportion of the total?

4 MR. DALE: Edmonton would be a very large propor-  
5 tion.

6 THE CHAIRMAN: To the total of the province.

7 MR. DALE: Yes. Their plant is a very large,  
8 comparatively speaking, thermal plant. I don't remember  
9 the figures offhand. It is using natural gas in steam  
10 boilers.

11 THE CHAIRMAN: Do you happen to know what propor-  
12 tion of the total of those three cities would be?

13 MR. DALE: No, I don't.

14 THE CHAIRMAN: Less than half, obviously.

15 MR. DALE: A little less than half, yes. We  
16 could get all this information if you would like it  
17 forwarded to you.

18 THE CHAIRMAN: I don't know. I think you are  
19 giving us what we want to know. I want a general view of  
20 what goes on in the province. It doesn't need to be too  
21 precise.

22 COMMISSIONER WALLS: In the beginning of your  
23 brief you make a reference to the fact that you are subject  
24 to commissions and rates set by a Public Utilities Board  
25 or Commission, whereas the municipal utilities are divorced  
26 from that. Would it make any material difference for them  
27 also to come under the public utilities?

28 MR. DALE: I think it really would.

29 COMMISSIONER WALLS: Are you not operating under  
30 entirely different circumstances? In other words, you





A10 1 wouldn't be competitive running a strictly rural power  
2 organization such as yours and competing with an urban  
3 or city power like that which is carried within the  
4 City of Edmonton - the matter of collecting rates would  
5 enter into the matter for discussion, the decision by  
6 the Public Utilities Commission.

7 MR. DALE: Well, operating under the Board as  
8 we do, if we feel we have to take a rate increase we have  
9 to make application to the Board and we have to prove our  
10 case, prove to the Board that an increase in rates is  
11 necessary.

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B/IR/dpw 1

2                   Conversely, if we want to give a reduction in  
3 rates, we also have to get their approval on that. That  
4 is generally easier to get. with the cities. If they  
5 decide they want to raise their rates, they can do it at  
6 a council meeting. Just overnight, like that, and the  
7 next day the people wake up with a rate increase. They  
8 don't know anything about it. If we do that, we have got  
9 to give it this terrific publicity. It doesn't matter  
10 what size of increase - 1% or 10% - it is thoroughly  
11 fought out in front of the public. We have to justify  
12 every move and every expenditure. If you are not in to the  
13 Board, you are home free.

14                   COMMISSIONER WALLS: If the City of Edmonton  
15 reduced its rates, it would have no great bearing on the  
16 rate you would charge, because you are operating an entirely  
17 different type of service.

18                   MR. DALE: Yes, but it is in the mind of the  
19 consumer. They have got examples. Well, take British  
20 Columbia, this so-called postage stamp rate that is essen-  
21 tially a subsidy of the outlying points at the expense of  
22 the major centres.

23                   If we are not tied in, we haven't got something  
24 - the City of Edmonton could charge the operating loss in  
25 the outlying points, but whereas, obviously, we can't do  
26 that sort of thing. There is a feeling of a certain seg-  
27 ment of the economy that, "Let's get on the bandwagon  
28 and let somebody else pay our way." They don't want to  
29 battle about it, but that is the feeling.

30                   THE CHAIRMAN: Certainly, your customers will  
compare your rates. They do it within the province, and



B2 1 within other companies and between provinces. Are there  
2 any points at which the customer would have a choice as to  
3 whether they buy from you or somebody else?

4 MR. DALE: There are areas, operating areas,  
5 between Calgary Power and ourselves where they meet, and  
6 if there is a question of which company will serve a  
7 customer, that is where the Board comes in. If we don't  
8 agree on it, they decide that on the basis of who can  
9 serve it the cheapest. It's strictly a cost-of-service  
10 basis. There is competition within our own area with  
11 our friends, the gas people, right now, too.

12 COMMISSIONER WALLS: They also are subject to  
13 the Public Utilities Board?

14 MR. DALE: Yes.

15 COMMISSIONER WALLS: Do you have trouble, then,  
16 with any municipally-owned or provincially-owned gas  
17 utilities in dealing with rates before the Public Utilities  
18 Commission where you feel at a disadvantage because they  
19 don't have to appear?

20 MR. WILLSON: We feel at a disadvantage, sir,  
21 with a place like the City of Medicine Hat, where there  
22 is no income tax as a component cost of their rates, such  
23 as is present in our rates.

24 COMMISSIONER WALLS: I imagine we get on to that  
25 in your brief a little later.

26 MR. WILLSON: Yes.

27 COMMISSIONER GRANT: I would like to know, as a  
28 matter of interest, were the provincial and municipal  
29 utilities ever under the Public Utilities Act of this  
30 province?



B3 1 MR. DALE: It has never been enforced, to my  
2 knowledge. If they have the right to dictate, or exercise  
3 their authority over the City of Edmonton, for instance,  
4 I know of no case where the Board or the Power Commission  
5 have ever actually enforced it. They have made recommenda-  
6 tions.

7 THE CHAIRMAN: Do you think the law requires  
8 them to apply for a rate change?

9 MR. DALE: I don't think so.

10 COMMISSIONER GRANT: They are exempt from the  
11 jurisdiction of the Board?

12 MR. DALE: Pretty well. There is sort of a grey  
13 area in there that nobody wants to really get into.

14 MR. WILLSON: I believe there is one exception,  
15 sir, to that, and that is the Alberta Government Telephones,  
16 which is a provincially-owned telephone company, and I  
17 believe right in its statute it is stated that its rates  
18 are regulated by the Alberta Public Utilities Board but I  
19 think that is the only government-owned utility in the  
20 province that is regulated by the Board.

21 COMMISSIONER GRANT: How many of the municipali-  
22 ties would operate their own private system? Does Edmon-  
23 ton?

24 MR. WILLSON: Yes, and Calgary.

25 COMMISSIONER GRANT: Are they part electric,  
26 part bus?

27 MR. WILLSON: Yes, the main routes are electric  
28 trolley buses and the feeder routes generally are diesel  
29 buses.

30 THE CHAIRMAN: I don't think you need to dwell





B4

1 overly much on the fact that in the case of your companies,  
2 taxation of income is included as a cost and this is  
3 reflected in your rates where it is not similarly reflected  
4 in the rates of your publicly-owned competitors.

5           What we would like to know is: what are the  
6 various alternatives to a solution? This problem is one  
7 that has been discussed, to the best of my recollection,  
8 for about 20 years. I don't think I have heard this  
9 solution before, but no doubt it has appeared before.  
10 Mr. Perry has heard it before, but certainly this is the  
11 approach to it.

12           Another one I would imagine would be changing  
13 the B.N.A. Act or a constitutional amendment of some  
14 kind whereby publicly-owned businesses could be taxed by  
15 the Federal Government. It would probably be a very  
16 difficult thing to do.

17           What other alternatives are there? You must  
18 have discussed as many as there are.

19           MR. WILLSON: Mr. Chairman, I am certainly not  
20 a tax expert in any sense of the word. I imagine there  
21 are variations of an end-use tax that could be applied.  
22 It seemed to us, from an administrative point of view,  
23 and recognizing that some taxation was inevitable, an  
24 end-use tax was, perhaps, as easy to apply, particularly  
25 where you have machine accounting and this type of tax  
26 can be calculated on your computers or billing machines  
27 with little difficulty, and it seemed to us to be, perhaps,  
28 as simple as any, and one that could be administered as  
29 equitably on a country-wide basis as any.

30           Perhaps there are other alternatives, but quite



B1 frankly, the only one we discussed as an alternative to  
2 corporate income tax was an end-use tax.

3 THE CHAIRMAN: Of course, one of the things that  
4 confronts us with regard to this is just how wide does  
5 one extend this area? You apply it to your own utilities,  
6 naturally. I would think that it would probably apply  
7 equally to other utilities, such as the telephone.  
8 Perhaps it goes beyond utilities to anything the Govern-  
9 ment might extend their activities into.

10 Does one exempt named industries from taxation  
11 when the Government enters into that industry? If this  
12 is the principle of taxation, it is difficult to know  
13 where it might end. You have got a good case to reach  
14 for equity. I don't think there is any doubt about that.  
15 There may be others, too. Therefore, I say to you to  
16 begin with: what are the alternatives? I think I can only  
17 consider the end-use tax and taxing government bodies  
18 which are probably not, at the moment, practical. I am  
19 not sure that the end-use tax is practical, either.

20 I don't think there is any difficulty about  
21 taxing consumers, but it may be difficult to appoint  
22 agents to collect the taxes. The agents would be the  
23 Provincial Governments, would they not? They would be  
24 commissions of the Provincial Government or corporations  
25 of the Provincial Government.

26 MR. WILLSON: Or of municipal governments.

27 MR. DALE: One limitation could be put on this:  
28 in this field the end-use tax would be applicable to  
29 regulated industries; where your earnings are subject to  
30 government scrutiny, and there is a very definite limit.



B6 1 THE CHAIRMAN: Railroads?  
2 MR. DALE: Eventually, why not?  
3 THE CHAIRMAN: It is a fairly wide net. I  
4 think there is something like \$50 million at the present  
5 time collected from utilities. There is more than that,  
6 I believe.  
7 MR. DALE: Right now there is only about \$16  
8 million in the electric utilities.  
9 THE CHAIRMAN: I beg your pardon?  
10 MR. DALE: From electric utilities it is only  
11 about \$12 or \$16 million.  
12 THE CHAIRMAN: You submitted that to us. I was  
13 thinking of the telephone companies you have got to add to  
14 that. That brings in a lot of taxes and this is quite a  
15 shift to forego that much income tax and to rely on  
16 another form of taxation.  
17 MR. DALE: Well the very fact there is this  
18 discrimination, and they are getting it, is gradually  
19 reducing that as an income tax source, because one  
20 of the most tangible reasons and the one that really holds  
21 water is the take-over to avoid paying income tax.  
22 COMMISSIONER WALLS: It seems to me there are  
23 two inherent problems that you brought out in your brief.  
24 The first is to avoid the loss of federal tax revenue and  
25 the second that appears in your brief is to prevent  
26 provinces and municipalities from gradually expropriating  
27 free enterprise businesses because of the tax advantage.  
28 Now, with both of these in mind, is it not  
29 possible that the only solution may be that you have got to  
30 find a constitutional method of taxation, of provincially owned



B7 1 corporations, so you both maintain the revenue and, at  
2 the same time, prevent the thing you are worried about  
3 most right now, which is a take-over of your utilities?

4 MR. DALE: Constitutionally, you mentioned that  
5 you thought that would be extremely difficult.

6 THE CHAIRMAN: Yes. I am wondering if it is any  
7 more difficult than requiring a provincial commission or  
8 companies or municipal commission to become agents and  
2 9 collect the taxes from their own customers. Their doing  
10 so frustrates the benefits which they have enjoyed by  
11 expropriation, doesn't it?

12 MR. DALE: Yes.

13 THE CHAIRMAN: Obviously, they are not going to  
14 do it cheerfully. Maybe they can be compelled to do it;  
15 I don't know. I have some misgivings about that one.

16 MR. DALE: It wouldn't be any more awkward than  
17 this 11% tax on materials on construction while it would  
18 ensure the Federal Government a continuing source of tax  
19 revenue, fairly distributed and maintaining the full advan-  
20 tage of competition.

21 If we can get on the same basis as the Government  
22 people, we have no worry whatever in meeting competition.

23 COMMISSIONER PERRY: What would you think of  
24 the position if fuels produced by regulated bodies were  
25 subject to this end-use tax and competing fuels produced  
26 in an industry where there were no regulated bodies were  
27 not subject to end-use tax?

28 MR. DALE: The fuels that are not subject to the  
29 end-use tax, the companies producing that would be paying  
30 income tax.





B8

1 COMMISSIONER PERRY: Yes, I realize all that.

2 I just wondered whether consumers of this fuel may not  
3 feel perhaps, without much logic, that there was discrimina-  
4 tion simply because the taxes appeared on one and did not  
5 appear on the other.

6 MR. DALE: Yes, that would be a matter for the  
7 companies concerned to educate the public.

8 COMMISSIONER PERRY: This wouldn't bother you  
9 to have that situation arise?

10 MR. DALE: It wouldn't bother me. I think it  
11 would bother Mr. Willson.

12 MR. WILLSON: I would say right now there is a  
13 discrimination going on where the consumers of natural  
14 gas supplied by investor-owned utilities are paying in  
15 their rates a much higher rate of tax than, say, consumers  
16 of competing fuels.

17 What we point out in the brief is income tax is  
18 something over 10% of our cost of service. I am sure  
19 that fuel oil or coal does not begin to carry that percen-  
20 tage burden in its unit price. We feel right now that our  
21 fuels and our customers are paying a much higher rate of  
22 tax than these other competing fuels and we suggest this  
23 end-use tax as a method which would bring taxation to a  
24 more reasonable level in our case, and we suggest, at the  
25 same time, the tax base be broadened to include all utility  
26 companies, whether they are investor-owned or government-  
27 owned.

28 We point out, I think, here that the Government  
29 revenues from an end-use tax would be, first of all,  
30 equitable on consumers of Alberta as compared with



B9 1 Saskatchewan, British Columbia and Ontario; and, secondly,  
2 could add a source of greater revenue to the Federal  
3 Treasury than the present income tax which applies only  
4 to investor-owned utility companies.

5 COMMISSIONER PERRY: Do I understand, then,  
6 that this end-use tax would be a somewhat lower rate than  
7 the effective income tax?

8 MR. WILLSON: Yes.

9 COMMISSIONER PERRY: It would not exactly replace  
10 it?

11 MR. WILLSON: No; on page 10, the Northwestern  
12 Utilities Limited brief, we point out in Section(IV) that  
13 an end-use tax applied uniformly to all electric and gas  
14 companies in Canada, an end-use tax of 2% would yield a  
15 federal revenue of \$26 million as compared with the  
16 present revenues from those same utility companies and  
17 consumers of \$20 million.

18 An end-use tax of 3% would be \$39 million. An  
19 end-use tax of 4% would be \$52 million, as compared with  
20 the approximate 11% that Alberta gas consumers are now  
21 paying, so this would be a relief of the taxation for  
22 Alberta consumers and, at the same time, provide increased  
23 revenues to the Federal Government.

24 THE CHAIRMAN: You wouldn't have any idea what  
25 it would be in respect to telephone companies, would you?

26 MR. WILLSON: No, I am afraid we did not study  
27 that, sir.

28 COMMISSIONER WALLS: So then there is a later  
29 part of your brief where it seems to me that you are  
30 jumping from one extreme to another. While we can recognize



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1 there is ~~inequity~~ between yourselves and privately-owned  
2 utilities, you are now talking about removing the corpora-  
3 tion tax and yet have your shareholders subject to the 20%  
4 dividend credit. Is that not literally removing your  
5 industry from a tax-paying basis, because your 2% end-use  
6 tax is going to come from your consumers entirely, so it  
7 seems to me that perhaps you are being a little unfair  
8 in regard to the request for the 20% dividend credit to be  
9 granted after the corporation tax is being removed, and I  
10 would like to get your ideas on that.

11 MR. WILLSON: We had not looked at it that way  
12 at all, sir. Because we are regulated, any reduction in  
13 taxes that might occur in our case is passed on to the  
14 consumer, so the shareholder does not benefit, or is not  
15 permitted to pocket the savings that might occur to  
16 substitute the lower rate of end-use tax for a higher  
17 rate of corporate income tax.

18 Just how that relates to the 20% tax credit I  
19 am not clear in my own mind just what connection there  
20 would be. I did not quite get your point.

21 THE CHAIRMAN: I would have a little difficulty  
22 finding the consumer got the benefit of the 20% dividend  
23 credit. I think that is what you are trying to say.

24 MR. WILLSON: Yes.

25 COMMISSIONER WALLS: No. What I was actually  
26 getting at was, of course, if you pass on the entire  
27 saving of the corporation tax to your customers, then  
28 there might be some merit to your case, but I am just  
29 questioning whether you would pass it on entirely, and  
30 this applies to the 20% dividend credit. You would be



B11 1 removing your industry from tax-paying entirely.

2 MR. WILLSON: What we are saying, sir, is that  
3 under regulation by the Alberta Public Utilities Board  
4 we would be required to pass on the eventual saving,  
5 whether we wanted to or not.

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2 THE CHAIRMAN: I think Mr. Walls' point with  
3 regard to the dividend credit - I don't think you have  
4 answered that. It seems to me if you are not subject to  
5 income tax it is very hard to say a shareholder should get  
6 a 20% dividend credit.

7 MR. WILLSON: Mr. Chairman, it has always been  
8 my understanding that the 20% dividend credit was an  
9 incentive to get Canadians to invest in Canadian enter-  
10 prises and that the provision of utility services through  
11 investor-owned utilities, it seems to me, is providing an  
12 essential service for the Canadian public. We have  
13 raised from it amounts of capital in providing this  
14 service and I don't see why our shareholders should not  
15 get the same type of advantages as shareholders in other  
16 Canadian companies.

17 THE CHAIRMAN: I think that is the answer,  
18 probably. I must say I had overlooked that part of the  
19 answer. It seems to me dividend credit is to serve two  
20 purposes: one to avoid some of the double impact on  
21 corporation tax and also an incentive to invest in  
22 Canadian enterprises.

23 On the second point, I think we must acknowledge  
24 the justice of your answer.

25 COMMISSIONER PERRY: Apart from the fact that  
26 the 2% end-use tax would produce about the same amount of  
27 revenue as you now collect from private utilities, would  
28 you have any other argument for supporting what is, in  
29 fact, a fairly substantial reduction of private utilities?  
30 I can follow your arithmetic, which is fairly obvious.

MR. WILLSON: We agree that this is a very



C2

1 substantial reduction down to 2%. It is one reason why  
2 we showed the 3% and 4% rates. We are not advocating  
3 any particular level. We put this in for the benefit of  
4 the Commission. We do point out, generally speaking,  
5 consumers of other products pay in the price of those  
6 products, generally, at an average rate of 2% as shown  
7 on page 7.

8 If the 2% level were applied in the case of  
9 utilities they would be on an equitable or uniform basis  
10 with other commerce in Canada. The 4% utilities  
11 consumers would be paying is twice the average rate.

12 THE CHAIRMAN: Roughly how much would the  
13 privately-owned electric and gas utilities be able to  
14 reduce their rate by your proposal so as to arrive at  
15 the same profits?

16 MR. DALE: On electric, as far as our company  
17 is concerned, the removal of the income tax would enable  
18 us to reduce our rates by around 12 to 14 percent.

19 MR. WILLSON: In the case of the gas companies,  
20 sir, if the end-use tax of 2% were applied in place of  
21 corporate income tax it would enable us to reduce our  
22 rates on an average of 10% because our present income  
23 tax is 12.1% on total revenues.

24 THE CHAIRMAN: I am sorry, what is that last  
25 percentage?

26 MR. WILLSON: 12.1%.

27 THE CHAIRMAN: Then, you would be able to  
28 reduce your rates by 12.1% and your customers would be  
29 subject to 2% tax?

30 MR. WILLSON: Yes.



1 THE CHAIRMAN: You have no reason to believe  
2 these rates you quote would not be representative of the  
3 whole industry? I am not asking whether they are exactly  
4 the same, but as far as you know they wouldn't be too  
5 much at variance?

6 MR. WILLSON: I would think in a lot of companies  
7 in Eastern Canada which are expanding quite rapidly and  
8 where they have very considerable capital cost allowance  
9 that their rate of income tax is not quite as high as it  
10 is in Alberta where the industry is somewhat more mature  
11 and we are in the position of having to pay income tax,  
12 I think as a result of the long history of the gas  
13 industry, at higher rates than is generally going on in  
14 Ontario.

15 MR. DALE: I think the figure based on 1960,  
16 mixed gas and electric and before take-overs and with  
17 even telephone, it is 12.2%

18 THE CHAIRMAN: Thank you. I recall suggestions  
19 made in the past that the Federal Government should turn  
20 over to the Provincial Government 100% instead of the 50%  
21 of the tax collected from utilities. If that were done  
22 would it meet your problem?

23 MR. DALE: Yes, it would.

24 THE CHAIRMAN: Your rates would still be higher  
25 than your competitors who were publicly-owned?

26 MR. DALE: But still staying within the province  
27 and not going out for the benefit of people who are not  
28 making any contribution.

29 THE CHAIRMAN: It reduces the desire of the  
30 provinces to take over the companies, I suppose?



C4 1 MR. DALE: Yes. It is a source of revenue that  
2 is collected in the province and spent within the province.  
3 THE CHAIRMAN: It wouldn't bring your rates  
4 down in the way that this end-use tax proposal would  
5 bring your rates down?  
6 MR. DALE: Not unless the provinces, in their  
7 wisdom, decided, for instance, to keep the 50% they are  
8 now getting back and allowed us to use the other 50% to  
9 reduce rates. It would depend on the provincial policy.  
10 MR. WILLSON: I wouldn't agree with my  
11 colleague, Mr. Chairman.  
12 THE CHAIRMAN: Let us have this out.  
13 MR. WILLSON: I think it would help with part  
14 of the problem. It would still leave the consumers in  
15 Alberta paying much higher utility rates than consumers  
16 in Saskatchewan or British Columbia because of the inclu-  
17 sion of this tax in their rates, whereas in those adjoining  
18 provinces the rates don't have to include this rather  
19 large element of cost, and therefore, in comparison,  
20 suffer, and I think would provide some fuel for those  
21 who would advocate take-over of investor-owned companies  
22 on the ground that rates are lower in Saskatchewan or  
23 British Columbia than they are in Alberta which, inciden-  
24 tally, I don't believe is the case. All other things  
25 equal, they could have lower rates where income tax is not  
26 a factor.  
27 MR. DALE: I'd better have this out with him  
28 outside.  
29 THE CHAIRMAN: Go ahead.  
30 MR. DALE: I don't agree. If we have end-use





1 tax I think the next best thing is to keep it back in the  
2 province. Making a comparison of the provinces on that  
3 basis - this does not worry me terribly, if our rates  
4 are higher. It is due to the province's wish and you  
5 make your comparison on that basis.

6 It is up to the provinces, in their wisdom,  
7 if they want to put a tax on. They have to face up to  
8 the fact they may be driving industry out.

9 THE CHAIRMAN: As long as it is within the  
10 province ---

11 MR. DALE: It is right here within our own  
12 hands.

13 THE CHAIRMAN: I don't think we can adjudge  
14 between you; thank you. We have your point of view.  
15 Would there be any possibility of finding a solution by  
16 the Federal Government conceding to the Provincial Govern-  
17 ment the right to tax regulated utilities on the under-  
18 standing that the provinces would levy the same tax as  
19 the Federal Government had levied in the past? Where  
20 would that break down? I presume it would, or somebody  
21 would have thought of it before.

22 MR. DALE: I am not sure I understand.

23 THE CHAIRMAN: My thought is simply that the Provin-  
24 cial Government would impose on their privately-owned  
25 utilities the same tax as which is now imposed by the  
26 Federal Government.

27 MR. DALE: It would be an improvement as far as  
28 we in Alberta are concerned. That is, in fact, that the  
29 Federal Government is vacating the income tax field  
30 with respect to the regulated utilities and leaving it



06 1 to the provinces and they would stipulate the provinces  
2 would continue to collect the tax.

3 THE CHAIRMAN: That is what is going through  
4 my mind at this moment. It is not very profound.

5 MR. DALE: Keep the money in the province.

6 THE CHAIRMAN: That is what I thought.

7 MR. DALE: This goes back to where I differ  
8 with Mr. Willson. It is money collected in the province  
9 and stays there.

10 THE CHAIRMAN: You say as long as it is within  
11 the province the solution should emerge within the  
12 province?

13 MR. DALE: Yes.

14 COMMISSIONER PERRY: May I put the Chairman's  
15 question in another way: have you made any representations  
16 to the province to remove their 9% corporation tax? The  
17 federal tax is not 50%, really.

18 MR. DALE: Yes, it is a variation - not to my  
19 knowledge; it may have been.

20 COMMISSIONER PERRY: I suppose you would be  
21 happy with the 9% tax if that was all that was left.

22 MR. WILLSON: We haven't made any representations  
23 to the Provincial Government for that particular solution,  
24 sir.

25 COMMISSIONER GRANT: For the Provincial Govern-  
26 ment to impose a tax which is now imposed by the Federal  
27 Government it would put the Provincial Government in the  
28 position where in dealing with the same industry they were,  
29 on the one hand, operators, and on the other hand, they  
30 were tax collectors. That would be quite a decision for



1 them to make.

2 MR. WILLSON: Yes, sir.

3 COMMISSIONER GRANT: What concerns me most  
4 about our discussion this morning is the matter which was  
5 referred *pp* by the Chairman earlier, and that is the  
6 constitutional aspect. The Federal Government undoubtedly  
7 has the power to impose the end-use tax that would apply  
8 to a company such as yours. It can be collected; they  
9 can enforce that. It is to get that end-use tax applicable  
10 to provincial or municipally-owned competitors - that is  
11 the difficulty.

2 12 Without all generators of power coming under  
13 such a thing as end-use tax, their products coming under -  
14 it wouldn't seem to be feasible to apply it to the  
15 remaining privately-owned utilities; do you agree?

16 MR. WILLSON: Yes. I am not a lawyer, sir,  
17 and I really don't know the constitutional aspects of it  
18 as to whether the Federal Government has problems in  
19 applying the end-use tax to provincially or municipally-  
20 owned utilities. That may be the case; I don't know.

21 COMMISSIONER GRANT: I wouldn't have to ask  
22 that. I know the answer. I know it is a great problem  
23 because it becomes a matter of collection of tax. The  
24 tax can be imposed. There shouldn't be any constitutional  
25 impediment there to impose the tax if it is a consumer  
26 tax, but it is a matter of collecting that tax.

27 Unless the Federal Government is prepared to  
28 set up its own facilities for collecting it would have to  
29 depend upon provincial co-operation and that provincial  
30 co-operation might or might not ---



CS 1 MR. WILLSON: So far as provincially-owned  
2 utilities are concerned.

3 COMMISSIONER GRANT: It would seem to be  
4 impractical from an administration point of view of  
5 imposing end-use tax.

6 MR. WILLSON: I see, certainly, the problem,  
7 sir.

8 MR. DALE: Isn't it a fact the Federal Govern-  
9 ment remits, to start with, 50% of the income tax on  
10 regulated gas industry back to the province? If they go  
11 half-way why not go the whole way and give it all back to  
12 the province?

13 COMMISSIONER GRANT: I think it is a recognition  
14 of the fact that public utilities are a natural field for  
15 provincial or municipal participation, ownership, and that  
16 in an effort to appease the provinces and keep them from  
17 taking over this source of tax revenue and eliminating it  
18 so far as the Federal Treasury is concerned, they did  
19 concede to the provinces 50% of the tax hoping that they  
20 might keep them satisfied. It hasn't. Since this has  
21 been done two of the largest electric utilities have been  
22 taken over: one in British Columbia and one in Quebec.

23 Whether or not the thinking of the federal  
24 authorities would be changed as a result of that, we don't  
25 know. You don't and we don't. We haven't enquired and  
26 you haven't enquired. It becomes really a question as to  
27 whether or not the federal authorities are willing to give  
28 up a source of tax in return for some quid pro quo on the  
29 part of the Provincial Government.

30 MR. DALE: The way things are going, if they





09 1 don't they will lose it, anyway.

2 COMMISSIONER GRANT: It is up to the Provincial  
3 Government to say whether they are going to remain as  
4 tax collectors or become operators. That still would not  
5 preclude expropriation.

6 COMMISSIONER PERRY: One question on this,  
7 which isn't terribly relevant. I wonder if you could  
8 tell us the sort of charges made by the Provincial Govern-  
9 ment now in some provinces that are quite substantial -  
10 charges for the use of power sites and that sort of thing.  
11 Do you have much of that in Alberta?

12 MR. DALE: We have property taxes in hydro.  
13 There is a fee for water used, business tax, school tax -  
14 just the ordinary taxes paid by everybody else are paid  
15 to the province.

16 COMMISSIONER PERRY: I was thinking of Quebec  
17 particularly where they have quite a heavy tax on people  
18 developing power on provincially-owned power sites, which,  
19 I suppose, has a counterpart here but at a relatively low  
20 rate. You wouldn't complain that the provincial charge  
21 here was onerous?

22 MR. DALE: In Quebec didn't they pass a regulation  
23 that they wouldn't Shawinigan to develop any more sites?

24 COMMISSIONER PERRY: They have done all kinds  
25 of things to Shawinigan.

26 MR. DALE: That is before take-over.

27 COMMISSIONER PERRY: There were quite heavy  
28 charges which went way back in time.

29 MR. DALE: They are not exorbitant here. They  
30 are reasonable and realistic.



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MR. WILLSON: The same situation exists with  
the gas utilities, Mr. Perry. We pay the normal property  
taxes, plant taxes and business taxes.



MR/dpw 1 The Provincial Government, Department of Municipal  
2 Affairs, have ruled that government-owned utilities must  
3 be assessed and apply the same yardsticks as privately-  
4 owned companies, and pay the same rate of assessment on  
5 the valuations applied for hospital purposes and for  
6 school purposes, so there has been an attempt at the  
7 provincial level to require that there be no discrimina-  
8 tion between government-owned utilities and private inves-  
9 tor-owned utilities.

10 They are taxed on exactly the same basis,  
11 regardless of the form of ownership.

12 COMMISSIONER MILNE: I really just have one  
13 question to ask: I looked at the statements that have  
14 come forward across the desk. I was looking at the total  
15 operating expense and the relation of the natural gas  
16 purchases, and I was wondering where are the sources,  
17 the chief sources, of your natural gas purchases?

18 MR. WILLSON: Is that the Canadian Western  
19 statement you have there, Mrs. Milne?

20 COMMISSIONER MILNE: I looked at both.

21 MR. WILLSON: In the case of the Canadian  
22 Western Natural Gas Company Limited the chief sources of  
23 gas are the Turner Valley field, which is about 30 miles  
24 southwest of Calgary; the Jumping Pound field, which is  
25 about 25 miles west; the Okotoks field, which is about  
26 30 miles south, and then our company owns fields which  
27 are generally between Lethbridge and Medicine Hat.

28 The original field, the Bow Island field, which  
29 was the source in which the company first derived its  
30 supply for the City of Calgary in 1912 - it was exhausted,



D2

1 incidentally, by 1919 - has since been repressured and  
2 plays quite an important role in the case of Northwestern  
3 Utilities.

4 The principal sources are the Leduc field,  
5 southwest of Edmonton; Bonnie Glen field, further out -  
6 perhaps 40 miles out - the Pembina field, which is 60  
7 miles southwest.

8 All told Northwestern Utilities has, I think it  
9 is, 14 separate sources of supply from fields generally  
10 in the area between Red Deer and the Athabaska River.  
11 Canadian Western has about seven sources of large supply.

12 THE CHAIRMAN: We have something on sales tax.  
13 Mr. Walls?

14 COMMISSIONER WALLS: With regard to Mr. Dale's  
15 brief dealing with the inconsistency in taxation of fuel,  
16 you bring out the fact that you are taxed on natural gas that is  
17 used in electric generating plants.

18 Now, as you probably know, natural gas for  
19 illuminating and heating is at present exempt, and it  
20 would, therefore, appear reasonable that it perhaps  
21 should be extended to cover its use in electrical genera-  
22 ting plants.

23 I was wondering to what extent actually do you  
24 use it in this province for generation of power and  
25 whether it is used anywhere else in Canada for that  
26 purpose?

27 MR. DALE: In this brief, on page 7(16)(2),  
28 we say under Exemption:

29 "Coal used in all thermal plants."

30 That should be 'coal and natural gas used in





D3

1 all thermal plants." Natural gas for use in power plants  
2 and burned under a boiler, steam, electricity is not  
3 subject to the tax but that same gas used in the same  
4 plant in the City of Edmonton - we have a situation where  
5 we have a plant, steam and gas turbine. Part of the gas  
6 goes through the steam and it is tax-free. The part of  
7 the gas diverted through the gas turbine, it pays tax;  
8 that is discrimination.

9 COMMISSIONER WALLS: Also gas is excluded from  
10 tax in every other use except for that; for illumination  
11 and household use.

12 MR. DALE: Yes.

13 COMMISSIONER WALLS: To what extent is gas used  
14 in these plants?

15 MR. DALE: The City of Edmonton uses it very  
16 extensively. The entire generation is gas. I don't know  
17 the split between burned under boilers and used in gas  
18 turbines.

19 MR. WILLSON: I would think that the City of  
20 Edmonton would be, perhaps, 80% gas used in boilers and  
21 20% in turbines. Turbines would certainly be a smaller  
22 percentage of the total.

23

24

25 COMMISSIONER WALLS: To what extent is gas  
26 used anywhere else in Canada for the generation of power?

27 MR. DALE: Saskatchewan use it in some of their  
28 outlying plants. British Columbia have one of the world's  
29 largest gas turbine installations. They are peaking  
30 plants; not used in base load as continuously as our small



D4 1 plants, and we have got two units in our Peace River area  
2 and the bulk of this generation for Peace River at the  
3 moment is from gas turbines and that is a high-cost area,  
4 anyway, and that is where it hurts more than ever up there.  
5 COMMISSIONER WALLS: Generally speaking, where  
6 there is availability of coal, is the coal thermal use less  
7 expensive than the use of gas?

8 MR. DALE: It depends on the size of the plant.

9 COMMISSIONER WALLS: I think your request is  
10 quite a good one.

11 THE CHAIRMAN: You are prepared to recommend it?

12 COMMISSIONER WALLS: I am not prepared to  
13 recommend anything this early. A year-and-a-half from  
14 now.

15 THE CHAIRMAN: Have you any more questions?  
16 Thank you very much, indeed. I think we have explored  
17 this about as fully as we are able to. I think we under-  
18 stand what you have put forth.

19 Thank you very much for telling us of this  
20 problem, which we recognize as a problem, and at which  
21 we will continue to look in the hope we can produce an  
22 answer, but at the moment all I can say is that we recog-  
23 nize the difficulties.

24 Thank you very much, indeed. Good morning.

25 MR. WILLSON: Thank you very much for the oppor-  
26 tunity of appearing, Mr. Chairman.

27

28 --- Short Recess

29

30 THE CHAIRMAN: Mr. Secretary, I think we are



D5 1 all ready.

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2 THE SECRETARY: Mr. Chairman, the next brief  
3 is being presented by the Alberta and Northwest Chamber  
4 of Mines and Resources. Mr. George Bryan, Q.C., is here  
5 to speak to the brief. Mr. Bryan is a Director of the  
6 Chamber and is representing them at this time.

7 I would like to enter this into the record as  
8 Exhibit No. 157.

9

10 --- EXHIBIT NO. 157: Submission of the Alberta and  
11 Northwest Chamber of Mines and  
12 Resources.

12

13 SUBMISSION OF THE ALBERTA AND NORTHWEST

14 CHAMBER OF MINES AND RESOURCES.

15 Appearance: Mr. George Bryan, Q.C.

16 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
17 morning, Mr. Bryan. Before we get into the meat of the  
18 brief, would you tell us something about the Alberta and  
19 Northwest Chamber of Mines and Resources? By its name  
20 it would indicate it is an association regarding mines in  
21 the northwest part of Canada. Would you expand on that  
22 a little bit? Stand or not as you please, Mr. Bryan.

23 MR. BRYAN: Maybe I will start out standing,  
24 and end up sitting.

25 Mr. Chairman, members of the Commission, the  
26 Alberta and Northwest Chamber of Mines and Resources is  
27 very pleased to be able to present this brief. This is  
28 an association in the City of Edmonton to which most of  
29 the northern mines are members. It is a lot of indivi-  
30 dual members in the city, chiefly people who are in



D6 1 business which are in some way connected with the north,  
2 suppliers of materials, operators of transport, and even  
3 lawyers. They keep in very close touch with the mines  
4 and try to assist them in their development in every way  
5 they can.

6 For example, they maintain an employment bureau  
7 here. The northern mines will say they have need of 10  
8 or 15 men and the Alberta and Northwest Chamber of Mines  
9 and Resources will endeavour to obtain men for them and  
10 send them north. If the mines require any particular  
11 type of supply, or things of that nature, they will try  
12 and locate sources of supply and advise them on this  
13 point.

14 They have a staff of, I think, five or six on  
15 the staff, and it is a rather busy office supplying all  
16 the area north of Alberta, Saskatchewan and the Yukon.  
17 As a matter of fact, I think the brochure they put out  
18 says they supply half of the land area of Canada.

19 The Chamber does not propose to try and present  
20 to you the effect of income tax provisions on the mining  
21 industry generally. We realize that we are only accounting  
22 for a relatively small group of the mines, and the larger  
23 mines are in the east and I think the problems of the  
24 mining industry can perhaps be better presented by the  
25 Canadian Metal Mining Association, which I understand will  
26 present a brief to you later.

27 As a matter of fact, we have been in touch with  
28 Mr. Wansborough and communications backwards and forwards  
29 and we have advised him we will limit our representations  
30 to some of the peculiar situations that confront mines in





D7 1 the remote, high-cost areas in the Northwest Territories  
2 and the Yukon.

3 These mines appreciate the incentives which are  
2 4 now in the tax regulations and in the Income Tax Act,  
5 but they do feel that while they give a tremendous benefit  
6 to mines generally, they are handicapped when they are  
7 in those areas in taking the benefit of these incentives,  
8 particularly the incentive with regard to the three-year  
9 exemption.

10 THE CHAIRMAN: Could we ask one or two questions  
11 before you get to the meat of this?

12 MR. BRYAN: Yes.

13 THE CHAIRMAN: I think from what you say that  
14 oil is not included in your organization.

15 MR. BRYAN: That is right.

16 THE CHAIRMAN: As to mines in the Northwest  
17 Territories and the Yukon there are very few operating  
18 mines, I would think, but there is a lot of development  
19 going on and there are prospects.

20 MR. BRYAN: That is right.

21 THE CHAIRMAN: I thought probably there were five  
22 mines in the Northwest Territories. I don't know about  
23 anything in the Yukon. One perhaps?

24 MR. BRYAN: Well, one is the United Keno - the  
25 big one.

26 THE CHAIRMAN: But there are many prospecting  
27 parties. They are all over the place. There is a lot of  
28 development. You would, I suppose, speak really for the  
29 prospectors and developers?

30 MR. BRYAN: We are speaking largely for the



DC

1 small operator who is going in and endeavouring to  
2 establish a mine and get it into production, and get it  
3 on a profitable basis and we feel that it is for that  
4 type of mine these incentives are largely put in the Act;  
5 to develop these.

6 As we point out in our brief, the pre-Cambrian  
7 shield does extend across a lot of the area to the north,  
8 and it is our feeling - maybe this is a Chamber of  
9 Commerce feeling - but we do feel it is just as rich in  
10 minerals to the north of this province as it is to the  
11 north of Northern Ontario, and through there, and that it  
12 is the last great frontier, and these people are going in  
13 and developing, and we feel that they should be given  
14 every incentive to develop that tremendous area.

15 We also feel that while the incentives are  
16 generous, as I said here, in the Act, it is almost  
17 impossible for a lot of the mines in the north to fully  
18 take advantage of those incentives. I do want to mention  
19 one or two things that cause this. Of course, one is  
20 weather and long transportation, and those things tied  
21 together - because practically 95% of the tonnage which  
22 is carried forward and back into the north goes by barges  
23 or by river boats and, as you will realize, the season is  
24 short. The winters are long and the result is that trans-  
25 portation has to be carried on during the summer season.

26 Now, this results in a great deal of stockpiling.  
27 I may say that I felt, after reading my brief, I did not  
28 sufficiently emphasize stockpiling because that is a very  
29 costly business for the mines and it does slow up the  
30 getting in of all supplies and also the getting out of the



1 ore because many of the mines work during the winter  
2 and stockpile all their ore, and then when the river  
3 breaks up it is shipped out on barges. As I say, 95%  
4 of the shipment goes by lake and river on these barges  
5 in the Northwest Territories.

6 Also, the fact that they are not close to  
7 contractors. You can't just get on the telephone and  
8 tell a man to bring in a bulldozer. Everything has to  
9 be brought hundreds of miles either by barge or by air.  
10 The result is the tempo of development is often much  
11 slower and not only that, but in view of the fact that  
12 you are having equipment going in by airplanes and barges,  
13 you try, if possible, to get a backlog so that they carry  
14 a load both ways and the result is many of the mines do  
15 not get into production all at once.

16 Now, I did make a check in the Mining Review  
17 this year and I notice - and mind you, this is not an  
18 exhaustive check - but I did notice in going over a great  
19 many of the mines which have started since 1955 and where  
20 they are in well-developed areas, you will find that their  
21 ore production per year is almost half their capacity in  
22 the first year and stays almost even. If it is 400,000  
23 tons, it will be 400,000, 425, 410, and just goes along  
24 like that right from the minute they go into production.

25 That, of course, is by reason of the fact they  
26 are able to have everything there, everything ready.  
27 The minute they decide to go on production, they are on  
28 full production which, of course, is a tremendous advan-  
29 tage to them tax-wise when they are going to get the first  
30 three years.



D10 1 When you look at a number of mines in the north,  
2 you will find production in the first year, perhaps a  
3 thousand tons, and then it will go up two or three and  
4 then slowly move up as they are able to get the equipment  
5 in.

6 I think, from talking to a number of northerly  
7 men - I had the advantage of talking to Mr. Justice  
8 Parker the other day - perhaps you met him when you were  
9 up there. This is perhaps typical of a lot of the mines  
10 in the north; that is one of their problems.

11 Now, in our brief we have made certain sugges-  
12 tions. I am not going to stress all of them because I  
13 am quite sure that Mr. Wansborough's organization will  
14 perhaps be saying the same thing and be able to say it  
15 better and to convince you more, but the points that I  
16 do wish to emphasize are the ones with regard to the three-  
17 year exemption and things of that nature where a mine  
18 can only get the real advantage of that section if it can  
19 be in capacity production really from the time that it  
20 starts.

21 It might be of interest to you if I just read  
22 you a quotation from the Department of Mines booklet,  
23 "Report on Northerly Mines," which they put out, and  
24 they are referring to the Torcanas mine and they say:

25 Torcanas mine has once again delayed in  
26 making the decision as to whether or not  
27 the mine should go into production."

28 I would think I would make a very good bet if  
29 I were to say that one of the main points in delaying  
30 their decision is to whether or not they can get into





D11 1 capacity production and be able to get the full benefit  
2 of the tax exemption.

E/PB/dpw 3 There are many problems in Torcanas with regard  
4 to transportation, with regard to development of the ore  
5 bodies. The two main points I wish to emphasize are -  
6 and I may say that we realize the great difficulty in  
7 trying to draft regulations where you get territorial  
8 difficulties, to say that people in one area are going  
9 to be treated in one way and that people in another area  
10 are going to be treated in another way. I believe the  
11 Governments have tried to do it in the depressed areas.

12 It is our feeling that perhaps there should be  
13 some alternative to this three-year production basis;  
14 Instead of having it tied to a specific time element,  
15 perhaps it could be tied to the recovery of certain costs  
16 or something like that. I feel sure that the intent  
17 behind that was to enable developers to recover certain  
18 costs and get into a financial position where they could  
19 carry on and give them this incentive.

20 The development of mines is still such they  
21 can run into stoppages and the difficulty is, under the  
22 regulations - and, I think, under the interpretation of  
23 the Department - once you go on production you are on  
24 production and if, a month later, something breaks down  
25 and you can't get equipment in and the six months is  
26 running against you - there are areas where it is very  
27 difficult to bring in supplies and machinery and equipment  
28 and look after these things and thereby the production  
29 stops if they run into a stoppage. That is my point.

30 There is another thing I wish to emphasize:



E2 1 we do feel in these remote areas, in these high-cost  
2 areas, these ones where you get into winter and don't  
3 get your ore for a year onto the market. There should  
4 be some other yardstick rather than purely a time yard-  
5 stick and something should be done about the question of  
6 work stoppages.

7           There is just one other point: as we have  
8 pointed out in our brief, exploratory work done prior  
9 to the commencement of operations can be written off at  
10 any time after the third year - any time you want. You  
11 would certainly take it after the three-year exemption  
12 period.

13           Exploratory work done after going on production  
14 has to be taken out on the cost. It is our feeling all  
15 exploratory work, whether it was before you go on produc-  
16 tion or later, should come out in the same way. The  
17 reason we feel that is the difficulty of northern mines  
18 to be completely developed and have all its galleries in  
19 and everything before it is on production.

20           When you get into a settled area they can go  
21 on production with everything there; the minute they  
22 start to roll everything is there. I don't think there  
23 is anything further I wish to emphasize. Those are the  
24 main points.

25           THE CHAIRMAN: Thank you very much, indeed.  
26 I think we will have a few questions. The last matter  
27 you referred to, exploratory work; of course, it occurs  
28 to my mind very quickly that there is always a little  
29 difficulty in restricting the classifications of expenses,  
30 of what it is supposed to do, such as exploratory. If



23 1 your suggestion was carried out it would require pretty  
2 careful definitions of what was exploratory expense,  
3 which is not needed to the same extent at the present  
4 time.

5 MR. BRYAN: I quite agree with you on that.

6 COMMISSIONER WALLS: When we were up to the  
7 Yukon and Northwest Territories one or two of the parti-  
8 cipants mentioned another factor other than taxation  
9 that was causing a delay in the development of mines  
10 in that country. You don't mention it in your brief,  
11 but I wondered if you could enlarge on the problem that  
12 there is a lack of final processing plants to the extent  
13 that we were told, that some of the ore went all the way  
14 to Pennsylvania. Is that not a definite factor, perhaps  
15 more than taxation, in delaying the economic expansion  
16 of mines in that area?

17 MR. BRYAN: I think you are quite right on  
18 that. We noticed some of the ore got stolen when it did,  
19 to North Dakota. This is a big problem and it does  
20 increase costs. The feeling of the Chamber, certainly,  
21 is, if we could get these mines so they are really in  
22 operation the plants will be developed in the Yukon and  
23 in the north where they will be processed right there  
24 rather than having to bring the ore down. We realize  
25 that is one thing that is very definitely holding up the  
26 development in the north.

27 COMMISSIONER WALLS: My second question is in  
28 much the same vein: as I think you will appreciate, it  
29 becomes rather difficult to have one tax schedule in one  
30 part of Canada and another in another. It seems to me -



E4 1 and I would like you to correct me if I am wrong - one  
2 of the main problems of the Yukon and the Northwest  
3 Territories is the lack of access to the mines by road  
4 and rail. In other words, would Pine Point have developed  
5 it they hadn't come to an arrangement with the Government  
6 to put a railway into Pine Point? Is access not more  
7 important than further tax concessions so that these mines  
8 say they are capable of becoming economic units and  
9 will attract investors' capital?

10 MR. BRYAN: I think there is a lot to what you  
11 say. The Government, in my opinion, has done a lot to  
12 assist these mines, building of roads, spending a lot of  
13 money on that, and they have, in the last year or two,  
14 given a lot of assistance on tote roads in the small  
15 mines. A great many of these small mines are now being  
16 served by air. Of course, the roads are unnecessary.  
17 There are only landing strips and they are doing a great  
18 deal of that.

19 The transportation item - I think the Chamber  
20 would doubt whether we are ever going to have really  
21 very many railroads in the north. We will have more  
22 roads where you will have truck transport, but a great  
23 deal of the going into the more remote mines will be  
24 by air. The cost of air transport has been coming down  
25 so it pretty well meets competition from the barges and  
26 has the advantage that it is very much faster.

27 Therefore, I have the feeling that the mines  
28 could get into the position where they are going to earn  
29 a profit sooner and will be able to expand their operations  
30 because the air transport will be able to get over that





E5

1 facet of transportation.

2 COMMISSIONER WALLS: Looking at that terrain  
3 it would be comparatively inexpensive to put roads through.  
4 They are running a railway up to Yellowknife  
5 from MacMurray. Surely the roads would be of greater  
6 assistance, I would think, in creating an economic mine  
7 than any tax concession, because there isn't much use  
8 having a mine unless you can get the ore out.

9 MR. BRYAN: That is true but the type of ore  
10 varies tremendously. Some is taken down in volume; then  
11 you really have a problem. Some of it is very small and  
12 they can semi-refine it there and only this very small  
13 amount comes out and comes down to the plant. We have  
14 had a lot of pictures before the Chamber of the development  
15 of these different mines and many of these mines are  
16 relying entirely on planes. Some are even landing on  
17 glaciers.

18 As you say, with iron ore - you don't do that,  
19 but some types of ores that have rich veins are easily  
20 taken by air. Bringing men and equipment into those  
21 places is a costly business and secondly, the companies  
22 have got to be sure there is going to be a real profit  
23 factor. They are not going to attract capital without  
24 it.

25 COMMISSIONER WALLS: Am I right, most of the  
26 mines that have developed at the present time in the  
27 Northwest Territories, their gold is of a sufficiently  
28 high quality that there is no need for the Government  
29 need for the collection of the Government subsidy?

30 MR. BRYAN: I wouldn't want to comment on that.



E6 1 I am not sufficiently well-versed.

2 COMMISSIONER PERRY: Mr. Bryan, we have had it  
3 said to us that the taxation people have a rough rule  
4 of thumb that a mine is not in production until it is  
5 operating on 60% of capacity; is that something you have  
6 run across in the north?

7 MR. BRYAN: I think that is perfectly correct.  
8 They don't say it is into production when it is just  
9 taking out the first few tons of ore or anything like that.  
10 I think they give a very fair deal to the mines in saying,  
11 "When you come on production."

12 I think it is also true once you are into produc-  
13 tion, limited production, even if something stopped you-  
14 your three years go on running.

15 COMMISSIONER PERRY: This would help with quite  
16 a few of the problems you have mentioned, wouldn't it?

2 17 MR. BRYAN: Well, it does to a certain extent,  
18 yes, but, of course, the question of capacity - most  
19 start small and gradually expand, and expand capacity as  
20 they go along. Most of these northern mines are not  
21 financed as well as mines, say, in Northern Ontario, where  
22 there is a lot of money behind them and they can start  
23 fully complete; they are going to have all their machines  
24 and go ahead.

25 Many start with a small operation with the idea  
26 they will gradually develop the operation.

27 COMMISSIONER PERRY: I am suggesting an alter-  
28 native of the third year rule. You said that a period  
29 might be allowed for recovery of certain costs. Could  
30 you be more specific in the costs you have in mind?



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1 MR. BRYAN: That is something that I can't be  
2 of much assistance to you on. There are a lot of promo-  
3 tions costs and that is the question of a definition,  
4 which I will frankly admit is a rough one.

5 THE CHAIRMAN: You have mentioned two or three  
6 things to us and there are others in your brief, but the  
7 ones you have mentioned to us don't seem to be increases  
8 in the incentives. You are not asking for a special  
9 incentive for this part of the world; you are really  
10 putting this to us to establish equality with other mines  
11 in other parts of the country?

12 MR. BRYAN: That is quite right.

13 THE CHAIRMAN: You do, of course, suggest  
14 increasing incentives to the whole mining industry, I  
15 think, which is that development would be allowed against  
16 profits in the non-exempt period. Yes, that would apply  
17 throughout.

18 MR. BRYAN: Yes.

19 THE CHAIRMAN: Your thought is depletion be  
20 allowed on gross profits - really, you are not asking  
21 for special concessions to the northwest other than the  
22 lengthening of the three-year period or the alternative  
23 basis which you are not very specific about.

24 MR. BRYAN: Basically, we are hoping that the  
25 concessions which are now granted could be adjusted in  
26 such a way we will be able to get full advantage in these  
27 areas.

28 COMMISSIONER WALLS: What you are asking for,  
29 based on the beginning of your brief, is not for the  
30 mining industry in general; you were dealing specifically







EC 1 on behalf of the northwest.

2 MR. BRYAN: That is right, although some of  
3 the ones, I am quite sure, will be asked for by other  
4 provinces.

5 THE CHAIRMAN: The other ones you are not  
6 putting in a context of a special need for **your people**?

7 MR. BRYAN: No, that is correct.

8 COMMISSIONER GRANT: As I see Mr. Bryan's  
9 plea, it is on behalf of the small operator who has  
10 not the advantage of unlimited funds behind him such  
11 as might be the case of a large company that was expan-  
12 ding its mining activities to another area, well-financed,  
13 or well-financed before it began its development work.

14 MR. BRYAN: Essentially that is right.

15 COMMISSIONER GRANT: The particular difficulty  
16 of those small operations ~~is when~~ they are so far removed  
17 from the source of supply.

18 MR. BRYAN: That is right.

19 THE CHAIRMAN: We are very much interested in  
20 examining the value there might be in the existing  
21 mining incentives or the further ones you propose. It  
22 is very hard to appraise these things. What the law  
23 terms incentives removes taxes from one group and puts  
24 them on another group. That is ~~what~~ incentives are.

25 Have you any evidence - and I may be very nasty  
26 in this question, but I don't think I am - that any of  
27 the existing mines would not now be in operation if there  
28 weren't incentives under the Act?

29 MR. BRYAN: I have talked to northern mining  
30 men who have said they felt that was true.



21 1 THE CHAIRMAN: It is a factor when it comes  
22 2 to appraising what you are going to do about mines. I  
23 3 would like to find some positive statement which would  
24 4 indicate had it not been for this shift in tax that  
25 5 there wouldn't have been as many mines as there are.  
26 6 I suspect that is true, but I have to take it on trust  
27 7 up to now.

28 8 MR. BRYAN: I do feel in the case of the state-  
29 9 ment with regard to Torcanas that the owners of the mines  
30 10 are very definitely looking at the picture as to whether  
31 11 the incentive, the three-year exemption, will be sufficient  
32 12 to carry them ahead if they go into production. They  
33 13 have been sitting back for a couple of years with the  
34 14 plant and a lot of work done and they never came into  
35 15 production.

36 16 COMMISSIONER GRANT: I suppose it would be fair  
37 17 to assume that there are properties being brought into  
38 18 production in the north now where additional incentives  
39 19 to those which now exist are not required?

40 20 MR. BRYAN: I think that perhaps might be true,  
41 21 although offhand I don't know of any particular case where  
42 22 that would be true.

43 23 COMMISSIONER GRANT: Take, for example, if Inter-  
44 24 national Nickel discovered a new mine.

45 25 MR. BRYAN: I see what you mean.

46 26 COMMISSIONER GRANT: They can commence with  
47 27 production at a 100% rate.

48 28 MR. BRYAN: That is right.

49 29 COMMISSIONER GRANT: Any legislation which would  
50 30 give effect to your submission would probably have to



E10 1 apply to all mining companies, would it not?

2 MR. BRYAN: I think that is true, and I see  
3 the problem; that if, for instance, as some people wish,  
4 they extended the three-year period to a five-year period,  
5 if it applied to all mines it means that the big mines  
6 start off with complete production and get five years  
7 exemption, which is a terrific gift to them, in my opinion.

8 On the other hand, a small mine that is having  
9 trouble going ahead in five years might not get out of  
10 the red. I realize that is a tremendous difficulty.  
11 That is why I was wondering whether it could be on the  
12 basis of some other yardstick.

13 COMMISSIONER WALLS: What would you think of the  
14 yardstick it would be three years or the equivalent of  
15 three years of work days? As I understand it, one of the  
16 troubles in the north is they start development and have  
17 a breakdown that stops their production and causes long  
18 delays and therefore they lay idle in their work for a  
19 month or two and that takes up quite a considerable por-  
20 tion of the three years.

21 If, as an alternative to the three years, it was  
22 three years equivalent to the number of days worked,  
23 wouldn't that answer the problem?

24 MR. BRYAN: The time shall not run when they  
25 are not in operation. That kind of thing would certainly  
26 one facet would be of great benefit to them.

27 COMMISSIONER GRANT: That wouldn't work  
28 unfairly because the large companies wouldn't be  
29 encountering the same hold-ups as the small ones.

30 MR. BRYAN: That is true. They can fly up in



111 1 at any time. In a developed area if a generator goes  
2 they can get one tomorrow. If a machine goes there is  
3 one on the site and they are going again.

4 THE CHAIRMAN: One more question from me: we  
5 have had it suggested to us, as you may have noticed,  
6 that one way of developing secondary industry in the  
7 north country might be to withhold incentives such as  
8 depletion from those mines who ship the raw product  
9 outside the country, and that it be only directed to  
10 those mines whose product receives **processing in Canada.**  
11 Have you any views on that?

12 MR. BRYAN: I think it would be a very, very  
13 difficult thing to handle because I can imagine a certain  
14 type of ore - it would cost tremendous amounts to get it  
15 in Canada, to process that ore, and as a result the small  
16 mine is not in a position to get the facilities available  
17 and the property would stay there. I think it has got a  
18 lot of ramifications.

19 THE CHAIRMAN: I suspect it has <sup>some</sup> difficul-  
20 ties. Any further questions?

21 Thank you, Mr. Bryan, very much, indeed. That  
22 completes our questioning. We have examined your submis-  
23 sion and I think we understand it. We will certainly give  
24 it consideration. We are glad to see you. Good morning,  
25 sir.

26 MR. BRYAN: Thank you very much.

27 THE CHAIRMAN: Mr. Secretary?

28 THE SECRETARY: I have two more submissions  
29 which I would like to enter into the record. The first  
30 one is on behalf of the Retail Merchants' Association of





E12 1 Canada, which shall be Exhibit 158.

2

3 --- EXHIBIT NO. 158: Submission of the Retail Merchants'  
4 Association of Canada (Alberta) Inc.

5

6 THE SECRETARY: The second submission which was  
7 late in receipt in Ottawa at the regional hearing is from  
8 Mrs. Eileen Mitchell Thomas, Q.C., which I would like to  
9 enter into the record as Exhibit 159.

10 --- EXHIBIT NO. 159: Submission of Eileen Mitchell  
11 Thomas, Q.C.

12

13 THE CHAIRMAN: Thank you, Mr. Secretary. Is  
14 there any further business today?

3 15 THE SECRETARY: There is no further business  
16 for today. There is nothing until we meet at 9.30  
17 tomorrow morning in Calgary.

18 THE CHAIRMAN: Thank you. We will stand over  
19 to 9.30 tomorrow morning.

20

21 --- Adjournment

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# ROYAL COMMISSION ON TAXATION

## HEARINGS

HELD AT  
CALGARY  
ALTA.

VOLUME No.:

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ROYAL COMMISSION ON TAXATION

Hearing held in Court Room  
No. 2, Second Floor, Court  
House, 4th Avenue, Calgary,  
Alberta, on the 21st day of  
August, 1963.

COMMISSION:

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S.M. MILNE

MR. CHARLES E.S. WALLS

LEGAL ADVISER:

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RESEARCH DIRECTOR:

PROF. D.G. HARTLE

SECRETARY:

MR. G.L. BENNETT

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TORONTO, ONTARIO

I

ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF CALGARY, ALBERTA

August 21, 1963

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Mr. R.J. Burns, Q.C.  
Calgary, Alberta.

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A2 1 --- On commencing at 9.30 a.m.

2 THE CHAIRMAN: Mr. Secretary, is there any  
3 reason why we cannot start two minutes ahead of the half-  
4 hour?

5 THE SECRETARY: No, Mr. Chairman, I think not.

6 THE CHAIRMAN: Let us do so, then.

7 THE SECRETARY: Well, Mr. Chairman, Commissioners,  
8 the first brief to be presented in Calgary is being pre-  
9 sented by Mr. R.J. Burns, Q.C. Mr. Burns is here before  
10 you this morning to speak to his brief which I would like  
11 to enter into the record as Exhibit No. 160.

12  
13 --- EXHIBIT NO. 160: Submission of Mr. R.J. Burns, Q.C.

14  
15 SUBMISSION OF MR. R.J. BURNS, Q.C.

16 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
17 morning, Mr. Burns.

18 MR. BURNS: Good morning, sir.

19 THE CHAIRMAN: Thank you very much, indeed, for  
20 what you have put before us, and for appearing this  
21 morning to tell us of these problems. Our reading indi-  
22 cates that they are real problems, and we would like to  
23 explore this further with you.

24 If you would like to stand, that is your  
25 privilege. Do as you please. We try to conduct these  
26 reasonably informally, conducive to getting on with the  
27 job, of course.

28 Let it be recorded, Mr. Secretary, that the  
29 Commission is most comfortable, thanks to the City of  
30 Calgary and its beautiful Court House.



A3 1 THE SECRETARY: It is so recorded, Mr. Chairman.

2 THE CHAIRMAN: Mr. Burns, before we start on  
3 your submission, let me be clear. You are a lawyer in  
4 practice in Calgary?

5 MR. BURNS: That is correct, sir.

6 THE CHAIRMAN: Specializing to any extent in  
7 estate work?

8 MR. BURNS: Yes, sir.

9 THE CHAIRMAN: You have had some personal  
10 experience of the cases you recite?

11 MR. BURNS: Yes. One of them I was the plaintiff  
12 in, the Burns case, and I have had one other case almost  
13 parallel to it which has not been recorded. It was  
14 settled.

15 THE CHAIRMAN: In the Burns case you had more  
16 than a professional interest, I take it?

17 MR. BURNS: That is correct.

18 THE CHAIRMAN: I think we might go to the root of  
19 this matter now. Any questions before we do so? If not,  
20 do you have any remarks you would like to make to us before  
21 we start asking questions?

22 MR. BURNS: I do not feel, sir, that I can  
23 really add very much to what I put in the brief. I have  
24 tried to make it as concise as I can. I think it is a very  
25 small point and I hesitate to take up any time of the  
26 Commission on it. I told the Secretary one time I was not  
27 craving to appear before you.

28 If I could clarify anything that is in here, I  
29 will be happy to do it. Whatever you think will be of  
30 most assistance.



A4 1 I should point out there are a couple of typographical errors in the brief which relate to table  
2 graphical errors in the brief which relate to table  
3 numbers. On page 7, where it says, about the eighth line,  
4 Table 3 or 4, it should be 2 or 3. This was proofread  
5 carefully several times.

6 One other place where I think there is one:  
7 on page 11, at the bottom, in the footnote there is a  
8 reference to Table 3. That should be Table 2. I must  
9 apologize for those errors on the part of someone.

10 THE CHAIRMAN: It is hardly a small matter when  
11 you indicate that the duties levied for these estates  
12 were 406% and 191%, of what the courts ultimately found to  
13 be due. A substantial difference.

14 Now, do these differences turn entirely on the  
15 interest rate used and the mortality tables. I think not.

16 MR. BURNS: No.

17 THE CHAIRMAN: I think from what I read it went  
18 beyond that.

19 MR. BURNS: Quite beyond that.

20 THE CHAIRMAN: I wonder if you would tell us a  
21 little more as to precisely what the difficulties are, or  
22 put your finger on them in your submission, if you care to  
23 do so. While I have certainly read them, a recapitulation  
24 would be of assistance.

25 MR. BURNS: The obsolete mortality tables have  
26 a bearing, obviously, to the extent that they are obsolete  
27 and an interest in expectancy, because the longer people  
28 live the further you discount future capital interest.

29 That is, if you are entitled to \$100,000 on the  
30 death of somebody who is 50 years of age, and they are



A5 1 using a table that says they are going to die in 15 years,  
2 and actually under the current experience they are going  
3 to die in 20 years, that makes a material bearing.

4 THE CHAIRMAN: You document that very well.

5 MR. BURNS: Apart from the fact that any table  
6 is not applicable in any given case. There is no such  
7 thing, as I point out, as a table on the life of an epilep-  
8 tic, a person suffering some physical disability, and that  
9 is the problem that faces that particular estate. It  
10 doesn't matter what any table says. That is one of my  
11 major points, I think: to get away from these tables  
12 entirely. Judge each case on its merits and permit a  
13 recourse to the courts so that these things can be reviewed  
14 judiciously and they are not sort of at the mercy of  
15 arbitrarily selective tables of any kind.

16 Interest rates enter into it, too. I have seen  
17 a lot of changes in them, particularly in the very recent  
18 years, so that, for example, to say that any given asset  
19 is worth \$100,000, and, therefore, the income from it is  
20 \$4,000, as it says here they shall use 4%, it may be  
21 \$1,000, or it may be \$10,000 on valuing that income  
22 interest and that was one of the problems in the estate  
23 which did not get to court. The Department simply  
24 assigned - said, "Here is \$10,000 worth of assets. They  
25 produce \$40,000 a year, and, therefore, this man's  
26 interest in it is half of that, \$20,000." In fact, it  
27 did not produce anything like \$40,000. Never had or  
28 never was likely to.

29 To me that is just not the way of valuing any-  
30 thing. You can look at the figures and the facts speak





A6 1 for themselves. The major thing, I think, in both of the  
2 reported cases was these tables disregarded all - sort of  
3 the underlying values. They do not give any account of  
4 whether - I think it is best brought out the way they do  
5 it today. They attempted, in the course of one of these  
6 legal proceedings - there is no distinction between these  
7 two things: if you are entitled to receive, 25 years from  
8 now, 10% of a property now worth \$1 million, that is the  
9 same as being entitled to receive, 25 years from now,  
10 \$100,000 secured by a property now worth \$1 million.

11 The distinction is, one is like a bond, the  
12 other is like common stock, because if you are entitled  
13 to receive, 25 years from now, 10% of something which is  
14 presently worth \$1 million, there is no assurance that at  
15 the end of 25 years that is going to be worth that \$1  
16 million.

17 It could be in Cuban coffee stocks or copper  
18 stocks or penny oils, or any sort of thing. You may end  
19 up by being entitled to something, say, 10% of \$500,000  
20 25 years from now.

21 THE CHAIRMAN: Or 10% of \$2 million?

22 MR. BURNS: Yes, that could be, depending on the  
23 administration it gets. The economics of the thing. But  
24 if you were entitled to \$100,000 that is presently secured  
25 by assets of \$1 million, then you have got first charge  
26 on \$1 million and the chances of your getting your  
27 one hundred thousand are very much greater.

28 It seems to me those are the sort of things that  
29 should be taken into consideration; the marketability of  
30 something. In the final analysis, that is the test of an



A7 1 asset. What can you get for it today from a prudent  
2 purchaser, and that sort of thing.

3 THE CHAIRMAN: Mr. Burns, are we talking about  
4 the assets, the value of the assets at a future time they  
5 are turned over, or are we talking about the life interest  
6 in certain assets which will never pass to that person?

7 MR. BURNS: They are both problems. In the  
8 Woodward case it was life interest in the rentals of  
9 certain properties, so they simply took the position, as  
10 I understand the case, these properties are now producing  
11 so much money a year. That is going to go on indefinitely.  
12 There is no consideration given to the possible deprecia-  
13 tion of the area where those properties were located.  
14 Partial destruction of the properties, or tenant moving  
15 away or somebody building another store across the street,  
16 or the town moving away from it. That is the sort of  
17 thing which you just can't look to.

18 For instance, recently, they looked at certain  
19 leases to oil companies on a farm. They needed an area  
20 of this farm to locate drilling rigs and access wells.  
21 There you have got to go into the question: how long are  
22 those wells going to produce oil or gas? At the end of  
23 that time the company is going to surrender the lease.  
24 That is the kind of factor that I think should be  
25 reviewed in looking at income interest.

26 In looking at a life interest, how long is the  
27 person likely to live, and on whose life it is based?  
28 What assets are producing this revenue? How much revenue  
29 is being produced? You don't just say it's 4% of what  
30 the assets are worth, because it may not be 4%; probably



A8 1 never will be 4%.

2 The basis of my contention really is, I do not  
3 see why these few types of interest are treated differently  
4 from all other types of property.

2 5 THE CHAIRMAN: Let us look at your solution and  
6 then let us go back on it and see if what you have said  
7 to us fits into that solution. Your solution is to  
8 discontinue the first part of the governing section and  
9 you add to the second part the words "All property."

10 MR. BURNS: The effect of it is, every type of  
11 right or interest will be valued at fair market value.  
12 That is what I am proposing. By splitting Section 58  
13 into - 58(s) into one and two, that is dividing and  
14 setting up two standards. One is fair market value for  
15 everything except income, life, annuity, term of years,  
16 life or other similar estate. I am saying put them all  
17 together. They are the same as real estate. They are  
18 the same as mineral rights. They are the same as any  
19 other type of property, stocks or bonds or cash, or what-  
20 not.

21 Why not use fair market value on them, too?

22 THE CHAIRMAN: Very good.

23 MR. BURNS: I am not saying that is going to  
24 necessarily be less or more. That is not my point  
25 because I am not trying to save anybody any money. I  
26 am trying to get everybody treated the same way.

27 COMMISSIONER GRANT: Mr. Burns, in capitalizing  
28 life interest, under your definition of value, it will be  
29 the same test whether applied to life interest or any  
30 other asset? The same method of valuation. Your idea



A9 1 would be that the beneficiary would be taken into account?

2 MR. BURNS: That is right.

3 COMMISSIONER GRANT: If that beneficiary, for  
4 instance, had less of a life expectancy, due to medical  
5 testimony -(I suppose medical testimony would be available  
6 for that and that he would have evidence)- than would be  
7 anticipated under the present mortality tables,  
8 the valuation would be made to fit that particular case?

9 MR. BURNS: Yes, as close as you can get it.  
10 Like you value a building; you look at the exact building  
11 you are valuing. You don't take the average of the  
12 buildings on 8th Avenue.

13 THE CHAIRMAN: The insurance companies, to some  
14 extent, do that, I think, in that they rate you up, or rate  
15 you down.

16 MR. BURNS: They put a surcharge on average if  
17 you are below.

18 THE CHAIRMAN: They adjust the mortality tables  
19 to suit certain circumstances?

20 MR. BURNS: That is right.

21 THE CHAIRMAN: I suppose it is something like  
22 that that you have in mind?

23 MR. BURNS: That is right, sir. I think you  
24 can bring in medical evidence, if you are concerned about  
25 the life of the person. Perhaps you are not disposed to  
26 argue with the tables. It doesn't mean every estate  
27 should go through a court procedure, but not every case  
28 may be disposed to accept the Department's point of view,  
29 that they want to use tables. They have developed this.  
30 All I am saying is, I don't want those tables to be given





A101 the force of law and appeal to the courts denied, which it  
2 is today.

3 You simply have to take the result of their  
4 slide rule.

5 COMMISSIONER GRANT: And if the mortality table  
6 is to be used, it is your point, in your brief, that it  
7 should be brought up to date?

8 MR. BURNS: Yes. I would think that is the  
9 point. Certainly, if anybody is going to use tables,  
10 you might as well use the most up-to-date tables.

11 COMMISSIONER GRANT: I think I can see your  
12 point; you are not concerned with how the Department  
13 arrive at their valuation, providing it is fair valuation  
14 and open to representations on the part of the  
15 beneficiary?

16 MR. BURNS: That is right.

17 COMMISSIONER GRANT: So that they will take into  
18 consideration certain circumstances that apply, particularly  
19 to that beneficiary?

20 MR. BURNS: That is right.

21 THE CHAIRMAN: Mr. Walls has a question.

22 COMMISSIONER WALLS: The only thing that would  
23 seem contrary to the spirit of that is the fact that on  
24 your Schedule D you quote three different mortality tables.  
25 The most recent D.B.S. table, which is 1955/57, which as  
26 far as I know is not used by anybody yet. Then you deal  
27 with the annuitants' mortality table and finally with the  
28 estate duty prescribed table which I believe is generally  
29 used for estates?

30 MR. BURNS: By the Department, sir, yes.



All 1 COMMISSIONER WALLS: Don't you think that you  
2 have a decided advantage there in the point that most  
3 estates are left to women? Now, here under this table,  
4 you have the same expectancy for male and female, and  
5 based on the male expectancy, so, therefore, you see if  
6 you will look at your mortality table, you will see that  
7 estate duty prescribed table is very much in line with the male  
8 population mortality table of 1955/57.

9 MR. BURNS: Yes.

10 COMMISSIONER WALLS: Now, the estate duty table  
11 is in line with both female and male with the modern male  
12 table; right?

13 MR. BURNS: Yes.

14 COMMISSIONER WALLS: Therefore, are you not  
15 gaining quite a decided advantage when the estate is  
16 left to a woman in that it is being based on male expec-  
17 tancy of from three to four years shorter than the actual  
18 female expectancy?

19 MR. BURNS: That works both ways, sir. You get  
20 an advantage on the male table, if you are valuing the  
21 life interest.

22 COMMISSIONER WALLS: That is right.

23 MR. BURNS: But you would get a corresponding  
24 disadvantage if you were valuing interest in expectancy  
25 because, as one goes up, the other goes down. The longer  
26 the lifetime, the greater the benefit of the life estate  
27 and the greater the discount of the life expectancy because  
28 you have to wait longer, so I don't think that is a factor  
29 which will balance off one way or the other.

30 My theory, my real theme, is that no table fits  
the estate of any one of us in this room, or at least if



A12 1 they do, I think we should be able to bring in evidence  
2 that they don't, if we don't agree with them. If you  
3 or I are prepared to accept the results brought out  
4 by any tables anybody wants to use, that is fine, but I  
5 think we should be able to challenge them and say, "My  
6 life interest is based on the life of a man who suffered  
7 a disability," or it is based on the life of a man or  
8 woman whose family live until an average of 90 years of  
9 age. There are long-life people and short-life people.  
10 People likely to be long-life and people likely to be  
11 short-life.

12 COMMISSIONER WALLS: A tax that only brings in  
13 a total of \$83 million, are you not going to make it  
14 administratively impossible in relation to the revenue  
15 received?

16 MR. BURNS: No.

17 COMMISSIONER WALLS: By each case being treated  
18 on an individual basis on the individual's future or  
19 current health?

20 MR. BURNS: Well, I say, sir, we do that with  
21 every other type of asset that is in an estate. It is  
22 only these rather peculiar ones where you get, say, some-  
23 one's grandfather has left them an interest for life and  
24 on their death it goes to their children, and then the  
25 intermediate person dies, that you run into this.

26 I don't think there are very many. I have run  
27 into two. In my discussions with the Department they  
28 talked about others, so I have no idea how many there are,  
29 but I don't think it is a bit more difficult than valuing  
30 a building that is part of an estate, or mineral holdings



1 that are part of an estate. If you want to challenge it,  
2 it's just a case of getting some appraisers in. You can  
3 always take the Department's figures, which presumably  
4 they would continue to calculate along the lines they are  
5 doing today, and so we think this interest is worth very  
6 much.

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I just want to be in the position in this case,

I want to disagree with them and if necessary I want to go to court. I will sit down and argue, but now I can't sit down and argue with them. That is that.

THE CHAIRMAN: The regulations' prescriptions are tantamount to law.

MR. BURNS: That is right.

THE CHAIRMAN: You say that isn't fair?

MR. BURNS: Yes.

COMMISSIONER WALLS: Surely it is difficult to judge the future life expectancy of an epileptic?

MR. BURNS: There may be some difficulties in the future life expectancy of an epileptic, but surely I should be able to raise that point and say, "This man is an epileptic. We will agree under those circumstances this should not be assessed according to your tables. Let us make an allowance for that." It is only after we fail to make an allowance, reach an agreement, we should go to court.

THE CHAIRMAN: I have the greatest sympathy for your viewpoint. You wish to be in a position to challenge

COMMISSIONER GRANT: You might say you could lay down a standard formula for assessing a brick building, a stone building, a concrete building, or a wooden building, and that that type of assessment should prevail all over Canada, but it would be most impractical.

MR. BURNS: That is right.

THE CHAIRMAN: And unfair.

MR. BURNS: It is not easy to do this. In places you run into trouble, such as shares of unlisted



B2 1 common stock; what is that worth? You can go to people  
2 who are experienced in the business and the Department  
3 does go through the same problem to get what the fair  
4 value should be.

5 THE CHAIRMAN: Mr. Burns, the terminology of  
6 your solution worries me a little bit. Are these properly  
7 determinable at market value or should it be at a fair  
8 value?

9 MR. BURNS: I have taken the terminology of the  
10 Act itself and changed the wording as little as possible.  
11 I threw everything in the same pot. In my recommendation,  
12 I say - must determine market value of such property  
13 computed as of the date of the death. Their sub-section 1  
14 says fair market value of such property computed in each  
15 case as of the date of the death. That follows the  
16 original Act, I think.

17 THE CHAIRMAN: Alternatively, one would have to  
18 seek exchange value for the annuity or life interest?

19 MR. BURNS: That is right.

20 THE CHAIRMAN: If the word "market" was in the  
21 law it would seem to me that is not your intention at all.

22 MR. BURNS: I am sorry. I don't think I am  
23 with you. Fair market value is pretty well-recognized  
24 judicially, I think.

25 THE CHAIRMAN: Market.

26 MR. BURNS: Yes.

27 THE CHAIRMAN: Surely it means exchange value,  
28 doesn't it?

29 MR. BURNS: It means exchange - it means what  
30 a prudent buyer would pay for something.



B3 1 THE CHAIRMAN: For the life interest in an

2 estate.

3 MR. BURNS: Whatever it is. We have that in  
4 expropriation cases, property damage cases.

5 THE CHAIRMAN: There it is perfectly fair. In  
6 expropriation cases it seems to be perfectly fair. When  
7 you come to a beneficiary who is getting a 25-year  
8 interest in the income from the capital, I am not sure  
9 that is something you can find exchange value for. I  
10 don't think that matters. We can check the law.

11 MR. BURNS: Certainly, you can go out and buy  
12 annuity and find out what the annuity cost.

13 COMMISSIONER GRANT: I think the word "market"  
14 does not detract from the definition, but to leave "market"  
15 off the definition would have a serious effect  
16 in determining valuation of other assets.

17 THE CHAIRMAN: I would agree with you there.

18 MR. BURNS: It is pretty well a phrase that has  
19 been used throughout all the valuation cases.

20 THE CHAIRMAN: In your definition, Mr. Burns,  
21 you retain in your suggested amendment the words "or as  
22 of such other date as is specified in this Act," and these  
23 words are now in the present Act. You don't, in your  
24 brief, suggest an alternative date for valuing assets of  
25 an estate?

26 MR. BURNS: Under certain circumstances in the  
27 Act that is there, so by leaving that there it is  
28 retained.

29 COMMISSIONER GRANT: The practice is that they  
30 establish value as of the date of death except in the



B4 1 case of a few **instances**, such as where there has been a  
2 valid **gift, inter vires**.

3 MR. BURNS: You can if you wish, when they fall  
4 into this position. I am trying to do the least surgery  
5 to the Act as possible to achieve my end.

6 COMMISSIONER GRANT: There have been several  
7 briefs presented to us recommending an alternative date  
8 be permitted for valuing the assets of **an estate**.

9 MR. BURNS: Well, there is certainly some merit  
10 in that. From my experience, it takes about six months to  
11 unwind an estate. I have seen estates suffer during  
12 that period, preparing inventory and getting a court  
13 order to deal with the assets and meanwhile the stock  
14 market has gone down. That can play havoc with an  
15 estate. I don't feel this is an inequity, actually  
16 looking at it broadly. It is just like, - take the value  
17 at the date of death, I wouldn't argue, but in many  
18 estates I would have liked to have valued a year after  
19 the date of death if possible.

20 COMMISSIONER GRANT: It would have to be kept  
21 fairly close otherwise it would **delay administration**.

22 MR. BURNS: That is right. I don't think you  
23 would want to go too far. That is correct.

24 COMMISSIONER WALLS: With your experience in  
25 **estates**, settling ranch / in order to hold the ranch within the  
26 family do you not think it is necessary to have a  
27 considerable extension of the settling period?

28 MR. BURNS: You mean time for payment of  
29 succession duty, sir?

30 COMMISSIONER WALLS: That is right.





B5

1 MR. BURNS: Certainly it works a hardship. We  
2 have that problem in this country. My rancher clients  
3 have the problem of how to keep the ranch in the family  
4 and pay succession duties. You are getting into payment  
5 of succession duties and not whether they should be  
6 substantially reduced. I didn't mean to tackle that  
7 particular problem. It is a real problem with people  
8 that have to pay to stay in business.

9 COMMISSIONER GRANT: This would be an extension  
10 of the payment rather than a change in assessment.

11 THE CHAIRMAN: You are not making representation  
12 to us as to whether succession duties are a good thing?

13 MR. BURNS: No. There are others more capable  
14 than I.

15 THE CHAIRMAN: I have no further questions.  
16 Well, Mr. Burns, thank you very much, indeed. We under-  
17 stand what you put before us. It sounds very good so far.  
18 Whether on further examination it will turn out to be not  
19 so good I can't tell you. Thank you for appearing.

20 MR. BURNS: Thank you for hearing me.

21 THE CHAIRMAN: Mr. Secretary, are we ready?

22 THE SECRETARY: We are ready, Mr. Chairman.

23 The second submission is being presented by Mr. I. Graham,  
24 who is Vice-President of the Canadian Federation of  
25 Property Owners' Associations. This brief, Mr. Chairman,  
26 is on behalf of the Canadian Federation and also the  
27 Ontario Property Owners' Association and also the Property  
28 Owners' Association of Metropolitan Toronto. Mr. Graham  
29 is a resident of Calgary and Vice-President of the  
30 national group. He is here to speak to the brief this



36 1 morning, which I will enter into the record as Exhibit  
2 161.

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4 --- EXHIBIT NO. 161: Submission of the Canadian Federation  
5 of Property Owners' Associations and  
6 Ontario Property Owners' Association  
7 and Property Owners' Association of  
8 Metropolitan Toronto.

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8 SUBMISSION OF THE CANADIAN FEDERATION OF  
9 PROPERTY OWNERS' ASSOCIATIONS AND  
10 ONTARIO PROPERTY OWNERS' ASSOCIATION  
11 AND PROPERTY OWNERS' ASSOCIATION OF  
12 METROPOLITAN TORONTO

13 Appearance: Mr. I. Graham

14 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
15 morning, Mr. Graham. Don't stand unless you wish to do  
16 so. Before getting into your brief I would like, if you  
17 would do so, to tell us a little more about your Associa-  
18 tion, its relationship to Ontario and Metropolitan Toronto.  
19 It is a Federation and I would assume it combines many  
20 Property Owners' Associations.

21 MR. GRAHAM: Yes, true, Mr. Carter.

22 THE CHAIRMAN: Why is it that three are selected  
23 by name, or two besides yourselves, when I assume you  
24 are speaking for all your members?

25 MR. GRAHAM: Yes, I am, Mr. Carter. The reason  
26 for this being done in Calgary is that our President,  
27 Mr. LeClair, of Ottawa, passed away about six months ago  
28 and I have been Vice-President for many years, for about  
29 15 or 20 years. I was in this organization when it was  
30 started back in 1944. I have been in it all the time ever



B7 1 since and I have never missed an annual meeting. I am  
2 familiar with the Metropolitan Toronto Property Owners'  
3 Association and the other Association from Toronto.

4 THE CHAIRMAN: Ontario.

5 MR. GRAHAM: The Ontario Property Owners'  
6 Association. The Canadian Federation does represent any  
7 association across Canada; that is, Property Owners'  
8 Association, sometimes called Ratepayers' Association,  
9 and Municipal Associations for improving municipal efforts  
10 and our Canadian Federation has been in existence for a  
11 good many years.

12 We had a big case in the Supreme Court of Canada,  
13 as we say in the brief, there, a number of years ago.  
14 That is on rent control. Our Association represents the  
15 lowest home owner, the individual home owner and right  
16 from that, right up to the man who owns commercial  
17 property and apartments. That is who we represent, the  
18 property owners of Canada from coast to coast.

19 THE CHAIRMAN: How many associations would be  
20 members of your Federation; a great many?

21 MR. GRAHAM: Yes. I would say quite a large  
22 number. That is something rather difficult to keep track  
23 of. I am President of the Calgary Property Owners'  
24 Association and I am also President of the Alberta Property  
25 Owners' Association. We have been very active from the  
26 time, just before the two judicial hearings on the Mayors  
27 of Calgary and Edmonton and Lethbridge.

28 THE CHAIRMAN: They pay dues, I assume?

29 MR. GRAHAM: Yes.

30 THE CHAIRMAN: That is one way of keeping track



33 1 MR. GRAHAM: Yes, that is true, but the Canadian  
2 Federation of Property Owners' Associations - we have  
3 asked for donations, they have asked for donations from  
4 us at critical times when they needed money but there are  
5 no actual dues from our Association to the Canadian  
6 Federation.

7 THE CHAIRMAN: When you prepare a submission of  
8 this kind I take it that it is prepared by the Canadian  
9 Federation and joined in by Ontario and joined in by  
10 Metropolitan Toronto?

11 MR. GRAHAM: Yes. They asked us to send in  
12 submissions from here, like Calgary and Halifax and New  
13 Brunswick and Vancouver and we sent submissions in to them  
14 and they gathered it all together.

15 THE CHAIRMAN: They being the Federation? You  
16 said "we" and "they"; who are you referring to?

17 MR. GRAHAM: The individual organizations sent  
18 their submission in to the Canadian Federation and they  
19 had a committee there that went over it carefully and I  
20 think Mr. Willes Chitty had a great deal to do with it.  
21 Perhaps you know him.

22 THE CHAIRMAN: I know him very well by name  
23 and I think I met him. Your profession is that of a  
24 lawyer?

25 MR. GRAHAM: No, I am a retired associate  
26 professor of the university and I am just looking after  
27 my own affairs and business right now.

28 THE CHAIRMAN: Thank you, Mr. Graham. I propose  
29 to start at the beginning and go through unless anybody  
30 else would have any questions at this point. "Restore





B9 1 incentive." That is point number one, Mr. Graham.

2 COMMISSIONER WALLS: I would like to ask a question  
3 on the introduction.

4 THE CHAIRMAN: By all means. I was attempting  
5 to move forward from the introduction but Mr. Walls has  
6 a point on the introduction.

7 COMMISSIONER WALLS: I was just wondering what  
8 was the authority for the statement that the Federal  
9 Government tax powers were to be restricted to indirect  
10 taxes. Is this not based on the fact that originally  
11 after federation we relied for our revenue on tariffs  
12 and that perhaps one province was the first to step into  
13 the income tax, but surely within our lifetime we have  
14 always looked upon the Federal Government as being very  
15 strong in the direct taxation field?

16 MR. GRAHAM: Are you referring to Section 1,  
17 Restore Incentive?

18 COMMISSIONER WALLS: I refer to the bottom of  
19 page 1.

20 THE CHAIRMAN: It is the introduction, Mr.  
21 Graham. I turned back to the introduction because I  
22 skipped over it and Mr. Walls wanted to ask a question.

23 You state:-  
24 COMMISSIONER WALLS: "Although the federal tax  
25 powers in theory are presumably unlimited in practice it  
26 has been understood they were to be restricted to indirect  
27 taxation." That is quite an important fact in our whole  
28 study of taxation if that is the understanding.

29 MR. GRAHAM: I know, Mr. Walls, but the whole  
30 trouble is that our taxing system now is that the federal  
and the provincial and the municipal are overlapping each



B10 1 other and we have to do something about it.

2 COMMISSIONER WALLS: I am not questioning that,  
3 but that the Federal Government only was in direct tax-  
4 tion.

5 THE CHAIRMAN: Where does this come from, Mr.  
6 Graham?

7 MR. GRAHAM: Well, I can't tell you exactly.  
8 I don't know what each Association did, but I think it  
9 deals with it further on. There will be an explanation  
10 further on when we get there. I would rather leave that  
11 question for the present and we will come to it later.

12 THE CHAIRMAN: Let us move on.

13 MR. GRAHAM: May I bring to your attention some-  
14 thing on page 1?

15 One of the most important of these is the compe-  
16 tition and overlapping between the Federal and Provincial  
17 Governments in today's tax field. Although the Federal  
18 tax powers in theory are presumably unlimited, in practice,  
19 it has been understood they were to be restricted to  
20 indirect taxation and for non-provincial purposes, so that  
21 the provinces (of which the municipalities are a part)  
22 will have their normal fields left open. At the time of  
23 our 1957 - I was right there - submission it was clear  
24 that the "gentlemen's agreement" on such a working basis  
25 was breaking down with disastrous results.

26 At that time (1957) pressure on provincial  
27 treasuries had forced a renewed search for fresh tax  
28 sources, resulting in an invasion into the field of  
29 indirect taxation. This was accomplished by pure inven-  
30 tion, devices that enabled the provinces by ingenuity in



B11 1 the mode of imposition of such taxes to have them assume  
2 the form, if not the substance, of direct taxation.  
3 THE CHAIRMAN: We are puzzled, Mr. Graham, as  
4 to the implicati on that the Federal Government was to stick  
5 to indire<sup>ct</sup> taxation.

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MR. GRAHAM: Mr. Chitty was our spokesman there

2 at that meeting with Prime Minister Diefenbaker. That  
3 is what they are referring to.

4 THE CHAIRMAN: I suppose you are familiar with  
5 the fact that the B.N.A. Act relates to this matter in  
6 only one way, and that is a restriction on provinces to  
7 stay out of indirect taxation.

8 COMMISSIONER WALLS: I would like to ask a  
9 question: on page 2, under the heading "Tax system must  
10 have sound base," what has the fact that some provinces  
11 have different views on welfare matters got anything to  
12 do with one government collecting taxes for another when  
13 this is primarily done to avoid additional cost to the  
14 taxpayers through duplicating administration? I don't  
15 see the fact of their having different views on welfare  
16 has got anything to do with the Federal Government collec-  
17 ting the provincial income tax. It is done purely, I  
18 would imagine, from the standpoint of saving administrative  
19 costs to the taxpayer.

20 MR. GRAHAM: Yes, but, Mr. Walls, the whole  
21 trouble there is that when the Federal Government collects  
22 a tax and gives it to the provinces - the provinces should  
23 be made to collect their own taxes because then when you  
24 complain about the high taxes that the Federal Government  
25 - they say, "Well, we are collecting it for the provinces,"  
26 and that leads to buck-passing, and that is not a good  
27 thing in a democratic nation. Buck-passing is wrong.

28 Each government should be made to collect their  
29 own taxes and Prime Minister Diefenbaker did take a turn  
30 in that direction because on our last income tax forms





C2 1 you have had to put down something about the amount you  
2 paid to your own province. They were beginning to see  
3 that that was a bad thing.

4 The Federal Government was getting blamed for  
5 high taxation when they were passing it over to the provinces  
6 - a great deal of it - and yet the one who imposed the  
7 tax certainly gets a going over from the people. They  
8 resent it. The Federal Government felt they were getting too  
9 much resentment over that situation.

10 COMMISSIONER WALLS: I can see your theory on  
11 that. Are you not subscribing to Parkinson's Law in  
12 setting up two organizations when one can do it?

13 MR. GRAHAM: Mr. Parkinson's Law works everywhere.  
14 In government, it doesn't matter what they do. They want  
15 excuses - and the Glasco report showed that definitely and  
16 now they are trying to shelve the Glasco report. Parkin-  
17 son's Law again. I saw in the paper the other day about  
18 that, about Parkinson's Law - they should be on the alert  
19 for elimination of Parkinson's Law. It was so true - what  
20 they said was so true and so succinct, and believe me, I  
21 would tell you people to go back to the Government and tell  
22 them that they have got to cut down this waste of money.  
23 They have got to tighten their belts.

24 High taxation is going beyond our resources to  
25 pay, and they are killing incentive right and left. I  
26 know it, because I experienced it and I have talked to  
27 others who experienced the same thing.

28 A lot of couples are going to the Bahamas in  
29 order to get out of this tax-infested country and you  
30 should be the people to go back and tell that to the



C3

1 Federal Government, that the people are rising up in  
2 righteous rebellion and it was very evident when Walter  
3 Gordon put on his 11%; he soon found out the reaction of  
4 the people.

5 Before, when the Liberals were in and secure,  
6 they could have done that and got away with it, but not  
7 now. From now on, they won't get away with it. I predict  
8 they will have to get rid of the 4% and subsidize the  
9 building industry or it is going to go right down to the  
10 bottom.

11 THE CHAIRMAN: May we ask some questions, Mr.  
12 Graham? I would move to page 3 where you make a reference  
13 to restoring incentives, and you say:

14 "All types of tax that can kill incentive  
15 either personal, corporate, in business or  
16 at home, should be eliminated from our  
17 tax structure...

18 I would think every tax has the potential of  
19 killing incentive. I don't think anyone is going to say  
20 taxes develop incentive. Taxes are depressive, and it's  
21 a question of just how depressive they are going to be,  
22 and certainly we wish to be able to suggest means of  
23 reducing the depressive effect to the minimum but I don't  
24 think one can eliminate all taxes that can kill incentive  
25 without eliminating all taxes.

26 MR. GRAHAM: Well, Mr. Carter, what did Ludwig  
27 Erhardt do 15 years ago in Germany? They were down to the  
28 bottom of the scale; licked, defeated, two world wars.

29 THE CHAIRMAN: Mr. Graham, please ---

30 MR. GRAHAM: He took off all controls. He took



C4 1 off all taxes. He said, "Give the people freedom and they  
2 will do the job," and they did that job and Germany came  
3 back faster than Canada with all the resources we have.

4 Killer-of-incentive taxes. If you take them  
5 off, the killer-of-incentive taxes, then the other taxes,  
6 like sales taxes and all the other hidden taxes that they  
7 have, will give so much to the Government the country  
8 will explode with business activity.

9 Our Northwest Territories would be developed  
10 if that could only be driven into their iron-curtain  
11 minds. If they could give the people freedom, take the  
12 bureaucrats off our backs, give us freedom, we will do the  
13 job and all those people in the Bahamas now would come  
14 back, and Switzerland would come back to Canada and do the  
15 job if they would only get rid of this killer-of-incentive  
16 tax.

17 THE CHAIRMAN: Are you proposing we scrap most  
18 of our welfare services, Mr. Graham?

19 MR. GRAHAM: Who asked for it? I never saw -  
20 now, as soon as Pearson got in, what did he do? He  
21 raised the old-age pension. I have had old-age pensioners  
22 tell me it was the craziest thing he ever did. "We are  
23 getting along all right." There was no big headlines in  
24 the paper - old-age pensioners are wanting more money.  
25 They think by doing this they are going to get more votes  
26 and retain themselves in power.

27 What they are doing, Mr. Carter, is using the  
28 tax money they take from us to keep them in power. That  
29 is what happens. That is exactly what happens, sir, and I  
30 think you have heard that before.



C5 1 There are strong forces in our midst who thrive  
2 on this lack of control, those who desire a spendthrift  
3 economy, more inflation, more welfare, et cetera, and who  
4 do not care how it is achieved or who pays. The Govern-  
5 ment cannot. These people think the Government pays the  
6 money. The Government takes it from the taxpayer. They  
7 take their cut - Parkinson's excessive bureaucracy - and  
8 then they pay out the rest of it. Why, when they take in  
9 \$5 to give to the children's allowance, I bet it costs  
10 the taxpayer \$7 or \$8 to get that.

11 COMMISSIONER WALLS: There is a question I  
12 would like to ask you, on the bottom of page 4.

13 MR. GRAHAM: Well, I would like to refer to  
14 something on page 3 before you do that, if I may.

15 COMMISSIONER WALLS: All right.

16 MR. GRAHAM: I want No. 1 marked and inwardly  
17 digested:

18 "All types of tax that can kill incentive,  
19 either personal, corporate, in a business  
20 or at home, should be eliminated from our  
21 tax structure as a matter of general prin-  
22 ciple and this should be done promptly so  
23 as to prevent further deterioration in our  
24 economy."

25 And I would like to refer to these succession  
26 duties. I just heard Mr. Burns saying a word about them.  
27 We have some recommendations here that I wish, with all my  
28 heart, you would take down to Ottawa. Now, right in  
29 Calgary, I think Calgary more than any other place in  
30 Canada goes on being taken over by the United States.





D7 1 The way it is now it is being stifled.

2 COMMISSIONER GRANT: Thank you, Mr. Graham. I  
3 see your point. It has been added - this general argument  
4 on incentive has been added.

5 MR. GRAHAM: Yes. I sure would like to have it  
6 added if it isn't there. On page 9, in the middle, I  
2 7 have proof of the 102% that one man was taxed by the  
8 federal, provincial and municipal tax, 102% on his income.  
9 They wouldn't give in. The first court did. He had  
10 gotten it reduced to below 100% and in the next one he  
11 lost again and he had to pay 102%. The article is in the  
12 October issue of the Property Owners' Association Magazine,  
13 Double Taxation Can Be Vicious.

14 Did you consider that separate tax form for  
15 man and wife - what a difference that would make?

16 THE CHAIRMAN: We have considered it and it  
17 has been represented to us by a great number of people.  
18 There are many ways of coping with the problem of how to  
19 tax the family rather than the individual. There is the  
20 American plan and various European countries have different  
21 plans. It is something that clearly must be studied by  
22 this Commission. We have examined your suggestion. We  
23 are delighted to have your views on it. It is very impor-  
24 tant. I don't think we need to explore it. We are going  
25 far deeper into this than in the submission.

26 MR. GRAHAM: Do you like that statement about  
27 promoting juvenile delinquency?

28 THE CHAIRMAN: That I understood, but I didn't  
29 think it was necessary to bring it out because it seemed  
30 to me you had gone a little far in your submission.



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1 MR. GRAHAM: There is some truth.

2 THE CHAIRMAN: You could be right. It  
3 emphasizes the recommendation for the taxation of the  
4 family rather than the individual. There is certainly  
5 merit to that point of view; there is no doubt about it.  
6 We have examined everything you have said. We questioned  
7 you so our understanding is complete. As far as I am  
8 concerned I understand the rest of it. Have you any more  
9 questions?

10 COMMISSIONER MILNE: I just have one question to  
11 ask you: I wanted to be sure that I understood you clearly.  
12 It was earlier in your remarks when you were speaking about  
13 the administrative cost of the family allowance. You  
14 felt, I think, that it should be discontinued because it  
15 costs the Government more to make the subsidy than the  
16 subsidy has value to the family.

17 I think this is something the Commission will  
18 look into, but in the event that this is so, do you  
19 think it would be popular with people to forego the  
20 family allowance subsidy? I didn't mean to ask you a  
21 question that would take a long time <sup>to answer,</sup> ~~because this isn't~~  
22 in your brief. It was something that came afterwards.  
23 I thought perhaps you could answer it quickly.

24 MR. GRAHAM: Mrs. Milne, I will tell you some-  
25 thing right now: I have 11 children and I hate that  
26 family allowance because every time I get it, \$50 or  
27 \$60, by doing that it costs me maybe \$200. I hate it.  
28 It has never been good for me. There is, at the lower  
29 end, people that look upon it so they can go to the beer  
30 parlour. They say, "We will have lots of beer for now on



1 the family allowance." I think it is nothing but a  
2 bribe, Mrs. Milne.

3 COMMISSIONER MILNE: Yes, this is an area we  
4 should pursue, certainly. Thank you.

5 MR. GRAHAM: There is one thing, unless they  
6 send their children to school they are cut off from the  
7 children's allowance. That is one good thing it does.  
8 It is a bribe, pure and simple. I look upon it as a  
9 bribe.

10 THE CHAIRMAN: That is interesting testimony.

11 MR. GRAHAM: There are countries just as wealthy  
12 as we are - do they have it in the United States? I don't  
13 think they do.

14 THE CHAIRMAN: No.

15 MR. GRAHAM: It is a pure and simple bribe.  
16 Here is a man with 11 children telling you that. I don't  
17 like the family allowance.

18 THE CHAIRMAN: Thank you, Mr. Graham. I think  
19 we understand what you have put before us. Thank you  
20 much, indeed, for your views. We are not bringing  
21 them all out this morning because it is unnecessary to do  
22 that. We have all read your submission with a great deal  
23 of interest. It is entered into our record. It will be  
24 taken apart by our staff and it will be given full consi-  
25 deration. It has been very helpful to us. Thank you,  
26 Mr. Graham.

27 MR. GRAHAM: May I say a word before you fire  
28 me? I would say that the whole problem of government is  
29 that they have followed the false economic theories of  
30 Lord Keynes. He was a phoney if I ever saw one. He says



D10 1 the best way - if you get in debt and can't pay your  
2 debts, the best thing to do is borrow more money; don't  
3 economize or cut out expenditures. This is the method  
4 of the Government today and it is a result of that,  
5 the economic advising group. They should go back to the  
6 economic ideas of John Stuart Mill and Thomas Smith and  
7 then we wouldn't have all these terrible problems we  
8 have. You should be able to make a very strong represen-  
9 tation to the Federal Government. I hope you pour it on  
10 double hard because they sure need a wake-up down in  
11 Ottawa when they give \$6,000 to their members without  
12 income tax when they are the ones who make income tax  
13 and impose it on others and exempt themselves from it.  
14 They ought to be all fired in the next election for doing  
15 that alone.

16 Please, for goodness' sake, get down to basic  
17 fact and sensibleness in economic theories. So many  
18 crazy things are coming out now. As Baruch said, "If  
19 an economics professor knew economy he wouldn't be an  
20 economic professor. He would be sitting on the top with  
21 lots of money."

22 If we look at Ludwig Erhardt in Germany - have  
23 you heard of him? Have you discussed his economic philo-  
24 sophy?

25 THE CHAIRMAN: Yes.

26 MR. GRAHAM: Look at that, right after Hitler.  
27 Hitler was a national Socialist. He comes along and  
28 switches it to the other way. Look at Germany. Canada  
29 could do the same if we had an Erhardt here instead of  
30 a Walter Gordon. We would be the same thing here and





D11

1 believe me this Canada of ours would be the greatest  
2 place on earth, if they would only do it.

3 THE CHAIRMAN: Thank you, Mr. Graham. We are  
4 not in a position to do more than the job put before us  
5 in our terms of reference. You have submitted your brief  
6 and it is in accordance with our terms. Let us not spoil  
7 it by going beyond it with things we are not concerned  
8 about and discussing politics and personalities. Thank  
9 you very much for your appearance this morning.

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E/R/cpw 1 --- Short Recess

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THE CHAIRMAN: Mr. Secretary?

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THE SECRETARY: Mr. Chairman, the next submission is being presented this morning by Dr. Donald C.

6

McEwen, M.D. Dr. McEwen is here to speak to his brief.

7

He has brought along with him a supplementary brief

8

which I have just given to the Commissioners.

9

I would like to enter the original and supplementary brief into the record as Exhibit No. 162.

11

12 --- EXHIBIT NO. 162: Submission of D.C. McEwen, M.D.

13

14

SUBMISSION OF D.C. McEWEN, M.D.

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THE CHAIRMAN: Good morning, Dr. McEwen. Don't stand unless you wish to do so.

17

DR. McEWEN: Thank you, sir.

18

THE CHAIRMAN: We have read your original submission with considerable interest and have questions for you. Mr. Bennett tells us you have handed to him a supplementary submission which we have all got before us, which we have not read because it has just appeared and we would be very glad - I don't think it is particularly long - if you would care to read it, we would be very glad to look at it.

26

DR. McEWEN: Very good. It makes it easier for me, too, Mr. Chairman.

28

In preparing my original submission to your Commission, the text was prepared in ignorance of your terms of reference and reflected only one individual's

30



1 anxiety about municipal taxation which, by not being  
2 deductible from gross income, amplified inequity and made  
3 the Federal Government an accessory-after-the fact.

4 2. At that time the author was not a home  
5 owner for the first time in ten years. I was moving between  
6 Regina and Calgary. Since then he had moved to Calgary,  
7 another home has been purchased and the problems faced  
8 by so many Canadians having to do with municipal taxation,  
9 mortgage payment, life insurance and their relationship  
10 to income and income tax again have been appreciated.

11 3. Since then, also, we have had a federal  
12 election, a budget, a great debate in Parliament and  
13 throughout this nation with regard to the long-term  
14 objectives of Canada; for an increased Gross National  
15 Product, for widespread prosperity for all citizens, and  
16 a searching for a solution of how we are to repurchase  
17 our assets from our great neighbour to the south, The  
18 United States of America.

19 4. It is now one hundred and one years - I  
20 appreciate this is somewhat repetitious of some of the  
21 things you went over with the last submission. It is now  
22 one hundred and one years, 1862, since the U.S.A. allowed  
23 as deductible federal, state and local tax from gross  
24 income, and eighty-eight years since these were extended  
25 to include mortgage interest, repairs and losses from the  
26 sale of land. In Great Britain and the U.S.A., to the  
27 best of my knowledge, certain deductible allowances with  
28 regard to life insurance premiums have also been included.

29 5. The point of all this, Mr. Chairman, is to  
30 suggest that in looking at these two countries, who have



E3 1 been able to generate so much capital for investment not  
2 only in their own countries, but throughout the world,  
3 possibly a principle can be evolved which will allow us  
4 as Canadians to finance the re-purchase of our heritage.

5 6. Canadian citizens, by and large, have too  
6 frequently only one investment outside their business.  
7 This is their home. In purchasing it, in furnishing and  
8 improving it, in paying municipal taxes compounded by  
9 the income tax surcharge, in the disallowance of deductions  
10 of mortgage interest and basic life insurance premiums  
11 this is as much and often more than many can afford.  
12 Basic Canadian deductions for income tax are not unfair,  
13 but by not positively encouraging investment, potential  
14 funds are diverted into consumer goods. Money for invest-  
15 ment or money for consumer goods are not necessarily  
16 competitive or absolute alternatives. With incentives  
17 many Canadians would increase their annual income by  
18 extra work. If changes in this direction are not taken  
19 it might not be the rank and file citizens of Canada who  
20 re-purchase her economy, but again the few who already  
21 own so much of what is now Canadian.

22 7. With regard to my original submission,  
23 municipal taxes by not being deductible from gross income,  
24 remain a source of concern because known inequities are  
25 simply magnified. These inequities are familiar to most  
26 people and have been catalogued repeatedly in books on  
27 municipal taxation.

28 8. It seemed wise - this is certainly not my  
29 field, and I am out of my field other than speaking as a  
30 citizen. It seemed wise to obtain the feeling of the





E4 1 Minister of Finance with regard to this aspect of municipi-  
2 pal taxation. On June 4th, 1963, in reply to my enquiry,  
3 Mr. Gordon stated:

4 "It is apparent that home owners already  
5 enjoy a tax advantage over non-owners.  
6 This advantage arises from the non-taxable  
7 nature of the value of rent received  
8 through ownership. For instance, a man  
9 who chooses to invest in stocks or bonds  
10 must take into income the dividends and  
11 interest earned, but the man who alterna-  
12 tively purchases a house is not required  
13 to take into income the value obtained  
14 from this investment. It is recognized  
15 that in this latter case the value is not  
16 normally 'cash,' however, it is very real  
17 and comparable to cash. I mention this  
18 not to discredit your suggestion, but  
19 merely to point out that there is a serious  
20 difficulty in meeting it. I shall be very  
21 interested in receiving in due course  
22 the Commission's views on this subject."

23 Signed. Mr. W.L. Gordon.

24 9. In seeking interpretation of this letter,  
25 many knowledgeable people agreed that Mr. Gordon was  
26 probably technically correct. To those people who live  
27 in homes paying their mortgage principal and interest,  
28 their taxes and insurance policies, as well as undertaking  
29 the stewardship of a home; e.g., painting, general upkeep,  
30 snow removal, gardens, etc., etc., little sympathy could



15 1 be found that home owners enjoy a tax advantage over non-  
2 owners, in lieu of non-taxable rent.

3 10. Mr. Gordon's comments require your  
4 careful consideration.

5 11. In conclusion, Mr. Chairman, some enlarge-  
6 ment of my original submission has been made. Each of us  
7 is anxious for a Canadian system of taxation capable of  
8 generating adequate revenue for the various levels of  
9 government, yet one that positively encourages investment  
10 in our country. It has been suggested that those prin-  
11 ciples successful in the United States for one hundred  
12 years having to do with deduction from gross income of  
13 federal, provincial and local taxes, deduction of mortgage  
14 interest and certain basic life insurance premiums be  
15 given close scrutiny by your Commission.

16 THE CHAIRMAN: Thank you very much, Doctor.  
17 Before starting on this, I was wondering how you came to  
18 be so greatly absorbed by taxation. We are all interested  
19 in it, obviously, because we all pay it but you seem to  
20 have more interest in it than the normal taxpayer.

21 Have you found yourself involved in economics?

22 DR. McELEN: No, I don't think so. I think that  
23 anyone who is actively in a profession or business, and  
24 is seeing this economy work, and tries to keep reasonably  
25 abreast of the times, I think one is projected into this.  
26 One is fascinated whenever a Royal Commission is appointed  
27 because you would not have been appointed unless there were  
28 some aspects of our tax problems that needed looking into.

29 I have always felt in paying out any small  
30 amount of money, which was directly to a Government, that



1 it was unfair to not have some recognition of this.

2 I think there are many people, whether it is in  
3 charitable donations or in many ways, that they are the  
4 same people that are contributing large amounts of money  
5 to various things in our country.

6 I am not sure that somehow or other we are not  
7 relieving our people from contributing what they could in  
8 this country.

9 THE CHAIRMAN: I am interested in the fact that  
10 you wrote to Mr. Gordon and received that reply from Mr.  
11 Gordon. As a matter of fact, I was going to point out  
12 to you exactly what Mr. Gordon has pointed out to you.  
13 The law in England used to be such - not now, but used to  
14 be such - that they imposed a tax on the imputed value  
15 of the rents derived from home ownership, and, furthermore,  
16 it is pretty apparent that the home owner now has a tax  
17 advantage over the man who rents.

18 I had that brought home to me the other day in  
19 my own case because my wife suggested that we consider  
20 moving into an apartment as opposed to owning the house.  
21 I got out my pencil, proceeded to find out how that  
22 stacked up; the amount  
23 in rent, how much money you have to pay out each month.

24 After writing down the cost of the home and  
25 setting in the other column the amount of rent, I had to  
26 look at the amount of money I had in my home which would  
27 then become available for investment. I assumed that I  
28 would receive so much on it; I could compute the taxes on  
29 that, and that was the difference between home ownership  
30 and rent, and it was of some substance.



E7 1 I am only saying that to indicate that there is  
2 an incentive. Now, perhaps it is not enough, and perhaps  
3 mortgage interest should be deducted and there ought to  
4 be other things, but one must always remember that every  
5 time one gives an incentive, it is taking away taxes from  
6 one person, and dumping it on other people.

7 DR. McEWEN: I realize that, sir. Accepting the  
8 fact the same amount of money has to be generated, and  
9 even within the allowable deductions at the moment, if  
10 some of these were particularly earmarked for such things  
11 as I have suggested, it may be that deductions might have  
12 to be increased to positively get people to invest in  
13 this country, but what we are trying to do is compound  
14 investment on investment and somehow accomplish the same  
15 thing which Canada has to do.

16 THE CHAIRMAN: I suspect we are being successful  
17 with regard to home ownership, are we not? Isn't home  
18 ownership increasing?

19 DR. McEWEN: As a physician, whether or not  
20 these things are in the law, most of us - and that is  
21 why I wrote the subsequent submission. I didn't until I  
22 had read your terms of reference - tried to think about it  
23 a little more. There are certain things that I did not  
24 appreciate, but we, certainly, in medicine see many young  
25 couples who get married and wish to have a home and the  
26 man may be making \$350 a month, and she is working and  
27 making \$300 a month, and they buy a home, which is what  
28 everybody wants to do.

29 A family comes along and immediately they are  
30 cut back to possibly \$350 a month and these people are





06 1 There is the Anglo-American, and different ones. The  
2 reason I know so much about that is I know Sam Nickle  
3 personally. I have known him since 1936, personally, and  
4 I met him on the street - I want to tell you this - I met  
5 him on the street one morning. He said, "Do you know,  
6 Irvine, what I am going to do? I am going down to the  
7 bank to borrow \$4 million to pay income tax on this Anglo-  
8 American. I would like to save the company for the  
9 family."

10 "They wanted \$7 million off me and I beat them  
11 down to \$4 million," and he was going down to the bank  
12 and try to borrow the money. He didn't have the money and  
13 he lost the Anglo-American.

14 Now, the succession duties: the present Succes-  
15 sion Duty Act should be changed so as to ensure that a  
16 business established by a Canadian, with Canadian capital,  
17 may be maintained by his heirs for generations rather than  
18 be forced to wind up or be taken over by foreign interests.

19 THE CHAIRMAN: Mr. Graham, please, we have read  
20 this brief carefully. We have underlined part of it. We  
21 have noted certain questions. There is no need to read  
22 it to us. It is entered in the record without reading.  
23 We do not propose to read <sup>aloud</sup> all the submissions that are put  
24 before us. We could never conduct this job. We don't need  
25 to do it. That is repetitious. If you will permit me to  
26 ask questions, we will do so.

27 MR. GRAHAM: What do you think about that 4%  
28 tax? Do you agree with that?

29 THE CHAIRMAN: I am sorry, sir, it is not our  
30 job to agree or to disagree. It is our job to receive



07 1 your submission and to draw out from you any  
2 amplification of this submission so we fully understand  
3 it and to consider it ourselves and then to report even-  
4 tually on what we have heard from everybody in the  
5 country.

6 MR. GRAHAM: Well, what question do you want on  
7 page 4, then?

8 THE CHAIRMAN: I am sorry, we will select the  
9 questions, Mr. Graham.

10 COMMISSIONER WALLS: I told him I would like to  
11 question him on page 4.

12 THE CHAIRMAN: Mr. Walls has a question on page  
13 4.

14 COMMISSIONER WALLS: I can quite understand  
15 your recommendation that the estate tax, perhaps, should  
16 not be charged until the surviving spouse dies, but there  
17 is one paragraph here where you say that if the survivor  
18 remarries a reduced tax be collected on the remnant of the  
19 first deceased's estate still unspent. Now, that is a  
20 reduced tax other than the possible lower rate resulting  
21 from the estate's depletion. What amount of reduced tax  
22 do you have in mind?

23 MR. GRAHAM: It is our recommendation if a man  
24 and wife have an estate together, as part of the lifetime  
25 structure for security in middle age, if one of them dies,  
26 the spouse has a hard time to keep the business going with  
27 a sudden falling away of half of the manpower, and probably  
28 the one most interested in the business, but they levy a  
29 tax in cash and on a false valuation sometimes.

30 If this woman can marry somebody who can carry



08 1 on the business, we submit that there could be some tax  
2 taken, then, on this estate, but we don't think that you  
3 should be hard on the estate when one person goes and the  
4 other one is still alive.

5 Leave it until the time they are both deceased,  
6 unless the remaining one gets married, and then they can  
7 perhaps stand some taxation. So that we recommended a  
8 reduced tax which would be collected. Does that answer  
9 your question, Mr. Walls?

10 COMMISSIONER WALLS: I can understand your  
11 thinking that as a wife has aided the husband in developing  
12 the estate, that perhaps the tax should not be collected  
13 until the survivor dies, but if she remarries then surely  
14 it is entitled to the full estate tax. What, in effect,  
15 you are now asking for is a reduced estate tax covering  
16 all estates.

17 MR. GRAHAM: Well, as long as government was  
18 careful not to kill the business. That is what we are  
19 concerned about - is the business being ~~take~~ out or  
20 stopped.

21 I have known of instances in town here where  
22 they had to throw up their hands and quit. Do you think,  
23 Mr. Walls, that that is a good thing for the economy,  
24 that succession duties should knock business right out of  
25 the operating end? Our business failures surely are  
26 enough without having estate taxes kill them besides.

27 It is hard enough to stay in business many times,  
28 and you have your ups and downs and my own experience is  
29 some years you make good money, the next year you might  
30 have a loss. Well, I could see them making you pay



09 1 income tax on that one year. Of course, a farmer can put  
2 over five years, but I haven't had that experience. I  
3 think there are instances where income tax does allow it to  
4 be spread over a number of years, but they are pretty  
5 tight on it.

6 THE CHAIRMAN: Moving, then, to page 6, clarifi-  
7 cation of capital gains, you refer to net worth assess-  
8 ment, Mr. Graham, which we have all seen, I imagine, and  
9 they are illegally taxing capital gains. That I have not  
10 seen.

11 I was wondering if that is a fairly common  
12 occurrence?

13 MR. GRAHAM: Absolutely, and I experienced it  
14 myself. They can come to anybody - I challenge you, Mr.  
15 Carter - anybody - an income tax bureaucrat can come to  
16 you even if you were getting wages and ruin you by the  
17 net worth assessment system. He can take everything you  
18 have and you are guilty until you prove yourself innocent.

19 That is the thing that I think should be changed.  
20 This is not right in a democracy, guilty until you have  
21 proved yourself innocent. That is a terrible thing. You  
22 talk about Communist organizations. The greatest Communist  
23 organization is the income tax ---

24 THE CHAIRMAN: Mr. Graham, let us deal with the  
25 questions, if you please. We do not need to go into  
26 Communist organizations. We do not need to make speeches  
27 on all these points. We are not going to get through  
28 with this job if we delve into the philosophy of each of  
29 these points.

30 I want to know if you have had any experience





010 1 and you have replied in the affirmative. Thank you very  
2 much. This matter in the middle of page 7 I think is  
3 very significant where you deal with something which you  
4 refer to as 'court drift,' indicating that the courts  
5 have really changed the tenor of the law to the detriment  
6 of the taxpayer. It is the second complete paragraph on  
7 page 7.

8 MR. GRAHAM: Yes, I know what you are referring  
9 to.

10 THE CHAIRMAN: The court drift, coupled with  
11 too much power in the hands of the Minister of Taxation.  
12 I think most of us thought when the court was established,  
13 or hoped it would, in fact, narrow the law and improve the  
14 law. The law was very vague where taxes are concerned,  
15 and whether that has been successful or has been unsuccessful  
16 - many people think it is successful and has promoted  
17 a better understanding of the law. I gather that is not  
18 the case here.

19 You don't believe this. You people believe it  
20 has misdirected the law; am I correct?

21 MR. GRAHAM: There are instances. Now, I would  
22 refer to the Cohen case on the capital gains on mortgages.  
23 Well, the Cohen case - in Toronto, I believe it was - the  
24 Supreme Court of Canada decided that - supposing you buy  
25 a mortgage for \$3,000. It is worth \$4,000; \$1,000 is  
26 capital gains, and subject to income tax. That was verified.

27 As a matter of fact, they tried to get it from  
28 me, assessed me on both, and I had to take it to court to  
29 get it off, and they knew all the time in the income tax  
30 office. The Supreme Court case had been there. I



C11 understand recently from Fred Scott of Calgary, who went  
2 to the Supreme Court again over the same thing and now  
3 they have reversed themselves. Well, where do we stand,  
4 for goodness' sake, on that?

5 At one time we were able to call it capital  
6 gains. Now, we don't know where we are. There has been  
7 two Supreme Court cases in Canada and it's - when you buy  
8 one of these mortgages you should know where you stand  
9 before you do. You should know how you are going to be  
10 dealt with by the Income Tax Department when you make a  
11 deal. That is another complaint. I don't know whether  
12 this makes specific ---

13 THE CHAIRMAN: In regard to this capital gains  
14 matter, you say it should be clarified. I don't think  
15 there is any doubt that we will all agree with that.

16 MR. GRAHAM: I am glad you do.

17 THE CHAIRMAN: Just how do we proceed to clarify  
18 it? How does one write a law which is clear in these  
19 matters? I don't think in any part of the world these  
20 matters have been completely defined so everybody knows  
21 where they are, but we are certainly looking for all the  
22 assistance we can receive on this matter of clarification  
23 of what is income and what is capital transaction.

24 MR. GRAHAM: Just to show how confused that is,  
25 Mr. Carter, it was in Hansard and in the Herald here, Mr.  
26 Chubby Power, when the Liberals were in full swing, asked  
27 Minister Harris right in Parliament - he said, "Mr.  
28 Harris, is there a capital gains tax in Canada?" Mr.  
29 Harris said, "No, there isn't."

30 "Well," said Chubby Power, "why don't you tell



014 the Income Tax Offices across Canada about it?" I am

/PB/dpw 2 quoting.

3 THE CHAIRMAN: I am asking you for assistance,  
4 Mr. Graham. We know these things. I have read that, just  
5 as you have read it. That is not very helpful. Can you  
6 tell us how to cure it?

7 MR. GRAHAM: Well, I would say the best thing to  
8 do is to ask the Federal Government and tell them that they  
9 had better do these things or else they are going to  
10 sabotage the economy.

11 THE CHAIRMAN: Thank you, Mr. Graham.

12 COMMISSIONER WALLS: I am rather interested in  
13 your suggestion on page 8 that municipal taxes be deducted  
14 from income tax. I note that further on in your brief,  
15 I believe on page 14, you narrow that down or appear to  
16 narrow that down to the municipal taxes covering education  
17 and welfare be deducted.

18 MR. GRAHAM: That is the second alternative  
19 if you can't get it on the whole thing.

20 COMMISSIONER WALLS: Your brief didn't make  
21 that quite clear and I presumed this was a generality  
22 that you deduct municipal taxes but specifically you  
23 meant those taxes that weren't directly used for the  
24 improvement of  
property, such as education and welfare.

25 MR. GRAHAM: Yes. Excuse me, Mr. Walls, may I  
26 just refer to one point before that: this depreciation  
27 allowance. What the income tax does - for example, there  
28 are a lot of complaints about unemployment, and I have  
29 some older places, and lots of people have older places -  
30 you go to renovate them and fix them up and you figure



D2 1 that you are going to increase your income, charge a  
2 little more for the suites, and the income tax, of course,  
3 is going to get their cut off that, but not only do they  
4 do that, but they come along and say, "It is not repairs,  
5 that is capital," and they change it from repairs to  
6 capital. Then they add it on to the price of the building  
7 and then it is depreciated and when you sell your building  
8 you pay income tax not only on the money you received but  
9 on the money you spent. That is killing incentive.

10 THE CHAIRMAN: I read that most carefully. I  
11 had underlined that and I agree with you that is probably  
12 a defect in our law, and I have written against it "Cure."  
13 How does one cure this? I don't think it is to remove it  
14 from the recapture restrictions, but to perhaps restrict  
15 the amount of recapture in some way with regard to long-  
16 term.

17 MR. GRAHAM: May I just say the way to cure that  
18 would be to allow the owners repairs and that he could  
19 charge it against his income, and then he would do it  
20 and he would employ people to do it.

21 THE CHAIRMAN:: Thank you.

22 COMMISSIONER WALLS: Getting back to this  
23 section on page 8 in which you talk about double taxation  
24 and go on and suggest deduction of municipal taxes from  
25 income tax: my interpretation seems to be a little  
26 different from yours and I would like to enlarge on it.

27 There are a number of taxes that the individual  
28 has to pay, but that doesn't necessarily mean that this  
29 is a double tax. My interpretation would be it is double  
30 taxation when he is taxed twice under the same tax. Is





23 1 that what you mean?

2 MR. GRAHAM: No. In the United States you keep  
3 your stubs if, for example, you buy some cigarettes and  
4 you pay some tax. You have already paid the tax on the  
5 money you received. You have to pay a tax on tax, when  
6 you pay another tax you should be able to deduct that  
7 from your original income.

8 COMMISSIONER WALLS: Yes, that is covered in another  
9 section of your brief.

10 MR. GRAHAM: This (a) and (b) question here of  
11 a mortgage, where a man owns a home outright and another  
12 man has bonds and then he mortgages his home, the interest  
13 he receives on his bonds he has to pay income tax on  
14 whereas the interest he pays out for his mortgage he  
15 doesn't get an exemption for and he is penalized. When a  
16 man wants to get into business, likely the biggest asset  
17 he has got is his home and he mortgages it and he has to  
18 pay interest on the mortgage but he can't use it as an  
19 exemption on his income. You understand what I mean?

20 COMMISSIONER WALLS: That is right.

21 MR. GRAHAM: Don't you think that is an unfair  
22 situation? That should be corrected.

23 COMMISSIONER WALLS: If you are going to deduct  
24 other taxes then provincial sales tax perhaps should be  
25 included  
26 I know you don't have it in this province. In all other  
27 provinces, with the exception of one, we have a provincial  
28 tax. If you are going to have one provincial tax deducted  
29 from income tax don't you agree you would have to consider  
30 all of them?

30 MR. GRAHAM: I must point out that is what they



D4 1 have in the United States. If this is done there they  
2 must realize it is double taxation. They say single -  
3 if you pay a tax - when you receive money and pay a tax  
4 on it, if you pay that money out the tax should be able  
5 to be deducted from the money you received. The same  
6 should apply here.

7 COMMISSIONER WALLS: A lot of what you say is  
8 correct, but I doubt the State sales taxes in the United  
9 States are deductible from their federal income tax.

10 MR. GRAHAM: They can keep stubs. It is in the  
11 Financial Post.

12 COMMISSIONER WALLS: It must be correct, then.

13 MR. GRAHAM: It refers to (b) on page 9,  
14 miscellaneous:

15 "A citizen of the U.S.A. can get credit on  
16 his income tax for every cent of other  
17 taxes paid - on meals, cigarettes, municipi-  
18 pal taxes, hospital taxes, home mortgage  
19 interest, et cetera."

20 It could involve a lot of stubs, but they can  
21 have it.

22 COMMISSIONER GRANT: If you were in business,  
23 Mr. Graham, and you have occasion to raise some money and  
24 you do it by way of mortgage on your house and you use  
25 that money in your business ---

26 MR. GRAHAM: Yes.

27 COMMISSIONER GRANT: --- do you suggest in your  
28 brief that you are not allowed to deduct interest on that  
29 against your business?

30 MR. GRAHAM: Yes, I say it is if it is the home



D5 1 you are living in. If it is a rented home and you have  
2 a mortgage on that you can charge interest against rent.

3 COMMISSIONER GRANT: I suggest that you are not  
4 right on that, Mr. Graham. I think if you are using that  
5 in your business you can deduct the interest charge.

6 MR. GRAHAM: Well, Mr. Willes Chitty went over  
7 that. I don't know. He should know. We should look  
8 that up and find out.

9 THE CHAIRMAN: We have taken the trouble to do  
10 that.

11 MR. GRAHAM: And you are sure of that?

12 THE CHAIRMAN: Yes.

13 COMMISSIONER WALLS: Yes.

14 MR. GRAHAM: Maybe many people don't know about  
15 it and don't do it.

16 COMMISSIONER GRANT: What is the difference in  
17 a person in business going to a loan company, a mortgage  
18 company, and raising money on the security of his house,  
19 or going to the bank and raising money on the security  
20 of his note or collateral bond if the money is used in  
21 the business?

22 MR. GRAHAM: That is a legitimate - what you  
23 might call - complaint, if you do pay interest. If you  
24 say it doesn't exist - I don't know. I would like to know.  
25 You really have checked into it and you found they can.  
26 Supposing that only part of the money went into the busi-  
27 ness; how are you going to figure it out? The Income Tax  
28 Department, these boys are pretty dictatorial. They can  
29 come and say anything they like, and you are guilty until  
30 you are proved innocent. They certainly hook you lots of



1 times. I don't know why this would be in here if it  
2 wasn't right, I am sure.

3 COMMISSIONER GRANT: If you have a mortgage on  
4 your house and you use that money to purchase a house  
5 you advocate the interest to be deducted as an expense  
6 against your personal tax...

7 MR. GRAHAM: Yes.

8 COMMISSIONER GRANT:..would you consider that  
9 that would be an inducement for a person to put a mortgage on  
10 his house and use the money for other purposes, for invest-  
11 ment purposes?

12 MR. GRAHAM: Yes, if he could get a mortgage  
13 on his house for 5% in the N.H.A. and then buy bonds for  
14 6% it certainly would be an inducement and I don't see  
15 where there is anything wrong in that. I think if a man  
16 wanted to do that it would be perfectly all right. Then,  
17 there is a big complaint, Mr. Grant, about Canadians not  
18 investing their money in their various mines and oil  
19 businesses; they have to go to the States for money.

20 Quebec, when they took over the power - where  
21 did they go? They went to New York to get money. Why  
22 couldn't they get their own people? If people could  
23 mortgage a house and get an exemption and put money into  
24 power and may be make 1% or half-a-percent they wouldn't  
25 have to go outside the country for money and there wouldn't  
26 be this foreign control in natural resources and business  
27 here. I think that would be one of the best ways and a  
28 wonderful recommendation if you people could make it to  
29 the Federal Government and get them to listen to it.  
30 It would stimulate Canadians to go into their own business.





E8 1 now . . . paying up to 10% of their total income on municipal  
2 taxation.

3           On the other end of the scale, and I am sure  
4 you are half-way in between, there are many older people  
5 who have devoted all their lives to building up their  
6 home, and then they get to the point where they retire.  
7 Now, it's a very large pension these days which will  
8 allow someone to live in a home. If they have been  
9 paying \$300, \$400 taxes, where 10 years ago the taxes  
10 were \$200, they may now pay \$410. These people are  
11 forced into an apartment. They have been bringing up  
12 their perennials and trees for 30 years and cannot even  
13 enjoy them because they cannot afford it.

14           I am only suggesting, as was suggested before,  
15 that I think we have got to build in an incentive. This  
16 is the thing that has always made this country work.

17           THE CHAIRMAN: An incentive to greater home  
18 ownership?

19           DR. McEWEN: Yes, and to invest.

20           THE CHAIRMAN: Thank you.

21           It is deductible to arrive at income.

22           DR. McEWEN: This is what many people are  
23 doing. There are thousands of people in this country  
24 who are. Look at the apartments that are going up.  
25 At the end of 20 years they have got it all depreciated  
26 through their rent, and this is undoubtedly the most  
27 popular investment in Canada at the moment. Twenty years  
28 from now the person is looking forward to an income of  
29 \$800 or \$900 from his 15-unit apartment.

30           COMMISSIONER WALLS: Correct. There is one



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E9 1 other question: I presume that you feel that the tenant  
2 would be in as fair a position as the property owner,  
3 and that the landlord of the tenant would get this deduc-  
4 tion off property taxes, which, in turn, should result in  
5 the tenant receiving a lower rent, which would compensate for

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111 deduction for taxation. Do you agree with that?

2 DR. McEWEN: Theoretically it would be true,  
3 but it is very rarely seen because what happens is that  
4 he so frequently feels he has made a capital gain and  
5 will sell his apartment, possibly, in 20 years and go to  
6 California and live on his \$100,000.

7 COMMISSIONER WALLS: You have experienced the  
8 wrong type of landlord.

9 THE CHAIRMAN: I think we understand your views  
10 very clearly. You feel very strongly that there should be  
11 the greatest incentive to home ownership. I must warn you  
12 we have got to watch incentives carefully. We cannot  
13 completely erode the tax base by providing incentives  
14 for everything. It's a question of how much weight one  
15 gives to one thing as opposed to the other.

16 DR. McEWEN: I would think, Sir, for my own  
17 information, I don't know whether these deductions - I  
18 suspect in Great Britain and in the United States both  
19 that deductions are considerably more lenient there, but  
20 after income tax started to be paid in both countries, the  
21 taxation is higher.

22 THE CHAIRMAN: One can accept that very readily,  
23 and there are some social deductions permitted there,  
24 because of this very onerous rate of taxation. In the  
25 States there is about a 20% erosion of the personal income  
26 tax base.

27 Most people in this country, I think, would hope  
28 that we would not involve ourselves in the same deductions  
29 they have in the States because if we did, the rate would  
30 probably become steeper to make up for it. It is very



Ell 1 hard, without speaking at great length, to indicate what  
2 those deductions are, but they figure about 20% of their  
3 tax base.

4 DR. McEWEN: Do you think more people in Great  
5 Britain and the United States take out life insurance,  
6 which most of us would agree that a widow should possibly  
7 be left with at least \$10,000 in life insurance?

8 THE CHAIRMAN: I have an idea that Canadians  
9 are the most heavily insured people in the world. I have  
10 got that in the back of my head but I cannot support it in  
11 any way. They are second to the United States, Mr. Walls  
12 tells me. We are very heavily insured, anyway.

13 COMMISSIONER WALLS: The only other question  
14 that I would like to ask you, and it is based on other  
15 representations that have been made to us, and that is  
16 under your property taxation today by far the big percen-  
17 tage is to cover the cost of education rather than general  
18 services to the property itself.

19 DR. McEWEN: Yes.

20 COMMISSIONER WALLS: There have been representa-  
21 tions made to us that quite rightly you should pay the  
22 general taxation from which your property directly bene-  
23 fits, and that only a proportion of taxation covering  
24 education and welfare cost should be deducted. Have you any ideas on that?

25 DR. McEWEN: I don't know enough about this  
26 field to make any suggestions as to paying income. I  
27 wonder whether it should be land. You people are not  
28 concerned with the municipal taxation. I think one often  
29 wonders whether it should be land simply that is taxed  
30 and not buildings and improvements.





121 THE CHAIRMAN: We have heard representations

2 on that, I can assure you.

B/dpw 3 Thank you so much, Dr. McEwen. It is a great  
4 encouragement to us to have citizens like you come forward  
5 and present their views. We are very grateful to you.

6 Good morning, sir.

7 DR. McEWEN: Thank you very much.

8 THE CHAIRMAN: Mr. Secretary?

9 THE SECRETARY: Mr. Chairman, the next submission  
10 is being submitted by Mr. Otto J. Steiner of Banff,  
11 Alberta. Mr. Steiner is here to speak to his submission  
12 which I will enter into the record as Exhibit No. 163.

13

14 --- EXHIBIT NO. 163: Submission of Mr. Otto J. Steiner.

15

16 SUBMISSION OF MR. OTTO J. STEINER

17 THE CHAIRMAN: Thank you. Good morning, Mr.

18 Steiner.

19 MR. STEINER: Good morning.

20 THE CHAIRMAN: It is nice of you to come down  
21 from Banff to see us. I recognize the sacrifice you are  
22 making. You have put before us a most interesting docu-  
23 ment which we have enjoyed reading tremendously. You  
24 have opened up a number of important matters. We will  
25 certainly wish to pose questions to you. Before doing so,  
26 Mr. Steiner, I note that you own the Norquay Mountain  
27 Chair Lift Company.

28 MR. STEINER: I am just a shareholder, sir.

29 THE CHAIRMAN: It doesn't account for your

30 interest intaxation.



281 MR. STEINER: Not at all.

2 THE CHAIRMAN: What accounts for your interest  
3 in taxation?

4 MR. STEINER: General interest in that field.

5 THE CHAIRMAN: Have you any background as a  
6 teacher of taxation or with the Taxation Department?

7 MR. STEINER: Well, I am from Switzerland, and  
8 I was working in that field for about 17 years and then  
9 as a tax advisor.

10 THE CHAIRMAN: Seventeen years as a tax advisor.

11 MR. STEINER: I was working as a tax assessor  
12 for 17 years and four years as a tax advisor.

13 THE CHAIRMAN: Thank you. That explains how  
14 you would have this rather deep understanding of the  
15 subject.

16 MR. STEINER: Thank you.

17 THE CHAIRMAN: Do you have any introductory  
18 statement or anything you would like to say to us before  
19 we proceed to ask questions?

20 MR. STEINER: No. After all, the brief covers  
21 everything and there is no need for going to explain it  
22 to the public at large. I would say there are other  
23 copies. Perhaps it is more economical to go to the  
24 questions.

25 THE CHAIRMAN: Thank you. We would be delighted  
26 to. You have recapped the matters here. One thing that  
27 is, of course, of considerable interest to us is the  
28 variation in the exemptions for areas with regard to cost  
29 of living. We have had representations on that from  
30 outlying areas as you may well imagine. I was curious



F3 1 as to whether you know whether there are any precedents  
2 in any country for varying exemptions. I think I have  
3 heard of one country which does it, but my information  
4 is not well-supported at the moment. Do you know of any?

5 MR. STEINER: Not to my knowledge. It is not  
6 in Switzerland, of course. Of course, it is a very  
7 compact country.

8 THE CHAIRMAN: Do you know anything about Norway?

9 MR. STEINER: There is very little federal  
10 taxation in Switzerland, so it is local taxation anyway.

11 THE CHAIRMAN: It, of course, raises some grave  
12 difficulties as to how to collect taxes. Mind you, one  
13 matter that is pointed out to us is that remuneration is sometimes  
14 negotiated on the basis of what is left to the employee  
15 after taxes, and where that is so there is no need for  
16 adjustment of exemptions. It is very hard to say whether  
17 that is general practice or is not general practice.

18 MR. STEINER: I would still say it violates the  
19 "ability to pay" because it should not depend on the  
20 employer making good for the inequity in taxation.

21 THE CHAIRMAN: That point is well taken.

22 COMMISSIONER WALLS: Mr. Steiner, do higher  
23 salaries not generally go hand-in-hand with higher costs  
24 of living areas in Canada? I note in the parts of  
25 Canada where the cost of living is less the teachers'  
26 salaries are correspondingly lower than they are where  
27 we have a higher cost of living. We were up in the  
28 Northwest Territories and we found that the miners there  
29 got a higher wage than miners elsewhere in Canada, that  
30 the Government paid a cost of living bonus, so that



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1 civil/salaries were higher and everybody's income was  
2 correspondingly higher in line with the cost of living.

3 MR. STEINER: Then you would suggest that the  
4 higher wages should not only take care of higher costs of  
5 living but of higher taxation which goes with the higher  
6 wage, which again violates the principle of taxing  
7 according to ability to pay, from different parts of the  
8 country, according to their ability to pay.

9 COMMISSIONER WALLS: You don't think the  
10 graduated scale takes care of that in view of the relation-  
11 ship between cost of living and income.

12 MR. STEINER: Than the way you mention it, I  
13 would rather suspect it goes the other way. If you net  
14 \$3,000 you are taxed the same as the man who makes \$8,000  
15 and you might not be better off than making \$6,000 in  
16 some other place. It is the other way, I would say.  
17 There are two principles which are not too clear in the  
18 plan.

19 The cost of living can be reflected on the  
20 percentage over and above the \$1,000, so 20% would be  
21 \$1,200 but still it wouldn't take care of the basic  
22 problems which would be, say, \$1,000, not \$200, but there  
23 are practical limits on that.

24 COMMISSIONER WALLS: Thank you.

25 COMMISSIONER GRANT: Are you dealing with page 3,  
26 exemptions, now, or where are we in the brief?

27 COMMISSIONER WALLS: I was at page 1.

28 THE CHAIRMAN: We are at the first item, No. 1,  
29 exemptions. We haven't got to children's exemptions.

30 COMMISSIONER GRANT: Are we dealing with the





1 Summary or the brief itself?

2 MR. GRANT:: The brief itself. If you turn  
3 to page 3 you will find the item 1 on exemptions. I was  
4 just going to say your major premise, it seems to me, is  
5 that if wages are low that living costs are low in the  
6 particular area.

7 MR. STEINER: No, not necessarily.

8 MR. GRANT:: I hoped you wouldn't draw that  
9 conclusion from that premise. You do say that regardless  
10 of where he lives, the taxpayer, being single, will be  
11 able to claim minimum exemptions of \$1,100. If he earns  
12 \$5,100 per year his taxable income will be \$4,000 calling  
13 for a tax of \$610 regardless if he lives in the Maritimes,  
14 where living costs are relatively low or in the west,  
15 where living costs are higher.

16 Later you say: "Suppose that it needs \$1,000  
17 to take care of the difference in the cost  
18 of living this taxpayer will, then, if his  
19 wages are accordingly higher, although he  
20 is not economically better off, be taxable  
21 for \$5,000 income, calling for \$830 in  
22 taxes."

23 What reason have you to believe costs are lower  
24 in the Maritime Provinces than they are in the west?

25 MR. STEINER: I suppose in the Canada Yearbook  
26 they are pointed out they are different.

27 MR. GRANT:: I will grant wages are lower, but  
28 I have never seen anything to say living costs are lower.

29 MR. STEINER: Well, I didn't make a study of  
30 that. I say if a study would show there is no difference,



F6 1 there is no basis for what I brought forward. I presume  
2 there is a difference from what I read in the newspapers  
3 and so on. I think there must be a difference. There  
4 was claimed to be a difference and usually I think that  
5 lower wages go with lower costs.

6 THE CHAIRMAN: You make your point without  
7 taking that position, anyhow, because you predicate it on  
8 the assumption that this was the fact.

9 MR. STEINER: Yes, that is right. I would say  
10 if a fellow with \$6,100 is not better off in some other  
11 place than the other fellow with \$5,100 at the other  
12 place, it is no use collecting 13% more tax if you would  
13 base your tax on the ability to pay.

14 COMMISSIONER WALLS: Have you given any considera-  
15 tion to the inherent administrative problems of your  
16 recommendation?

17 MR. STEINER: This is always a problem, and,  
18 of course, it is always a consideration, and if the objec-  
19 tive is worth the price. I would say sometimes you go  
20 into more administration costs on one side and if you have  
21 a good tax you might have co-operation from the taxpayer,  
22 which cuts down administration costs.

23 THE CHAIRMAN: Thank you. Children's exemptions.  
24 In your remarks about family allowances and the taxability  
25 of income - I understand your remarks to suggest inclusion of  
26 childrens' allowance in taxable income?

27 MR. STEINER: No, I wouldn't necessarily do that.

28 THE CHAIRMAN: It would depend upon the mathe-  
29 matical result, would it not?

30 MR. STEINER: Well, I would think it is actually



1 done - not to my knowledge in other places. You are  
2 supposed to be taxing for income. You can consider it  
3 from a purely theoretical point of view - it would have  
4 to be included because everything which represents income  
5 should be included to make a good Tax Act.

6 THE CHAIRMAN: We do that with old-age security  
7 and I would think I would agree with you that income  
8 should be all-inclusive.

9 MR. STEINER: That is the easiest way to  
10 eliminate all these varieties of things, different parts,  
11 in arguing if the Tax Act is equitable or not.

12 COMMISSIONER WALLS: You might have to **increase**  
13 the exemption on the low family **income group to offset that.**

14 MR. STEINER: I am not principally against it  
15 if you, with the present system, you get a family  
16 allowance on one hand and they take it away on the other  
17 and they even end up with taking more away than they  
18 give you, and that, I think, is not good. It might be a  
19 pretty expedient from a political standpoint, but it has  
20 not very much to do with the Tax Act, and this is the  
21 objective. In any case, it is not taxable, and then there  
22 is a difficulty in taking it away again.

23 THE CHAIRMAN: Income tax rates - this is a  
24 strong statement you make to the effect that the top rate  
25 in Canada is a violation of the guarantee of private  
26 property.

27 MR. STEINER: I believe in it.

28 THE CHAIRMAN: You suggest that the rate should  
29 be stopped at 50%.

30 MR. STEINER: Yes; which would make an overall



F8 1 rate of 40%. Also I think it is not economically very  
2 sound.

3 COMMISSIONER WALLS: You make reference to the  
4 fact we are losing high income people. Is that such a  
5 big factor when you consider that on incomes of over \$100,000  
6 -- we only get one-tenth of one per cent of total tax  
7 revenue?

8 MR. STEINER: Well, that might -- you know the  
9 figures. This would probably point to the fact if it is  
10 small like that, anyway, it doesn't make much sense when  
11 the country won't lose much. I don't know. I have had  
12 a bit of experience in this, people travelling around.  
13 It is not the climate in Canada.

14 THE CHAIRMAN: As you know, there are not many  
15 people in Canada with large incomes. There are 549 have  
16 incomes exceeding \$100,000 and only 82 which are in the  
17 \$200,000-and-over category whereas the 80% tax rate  
18 starts at \$400,000.

19 MR. STEINER: Something like that.

20 THE CHAIRMAN: Very few people are going to get  
21 caught in it, and I suspect anybody who is caught with  
22 it has managed to make arrangements which don't call for  
23 payment. I wouldn't know. I would be very surprised if  
24 there was much money taken in at the 80% rate, which is  
25 true in the States, where few people pay the top rate.

26 COMMISSIONER WALLS: 80% starts at \$400,000.

27 THE CHAIRMAN: I think I agree with you; if it is  
28 a useless thing it creates a very poor impression, to say  
29 the least. It is the impression we are leaving that  
30





1 fellow with 20%, which goes to support your statement as  
2 to violating the guarantee of private property. I am not  
3 going to agree with you, but it does go some distance  
4 along that point. The United States goes up above that.

5 MR. STEINER: I would still believe that lower  
6 rates like 50% or so, a number of people would say, "Let's  
7 quit now, I am not going to work for the Government till  
8 three o'clock in the afternoon. It is enough if I work  
9 till one."

10 THE CHAIRMAN: Do you think the progression up  
11 to 50% is about right or would you alter it?

12 MR. STEINER: No, according to my experience  
13 that is about where it would be stopped. It doesn't  
14 make sense afterwards. It defeats its purpose.

15 THE CHAIRMAN: I am sorry, you don't get my  
16 question, Mr. Steiner. Do you think the steps of the  
17 progression below 50% are about correct, correctly  
18 weighted?

19 MR. STEINER: I suppose there is no yardstick  
20 I know of which actually would answer that question. I  
21 think that is where the trouble comes in, and says, "How  
22 do we get money, anyway," or, "We go up until we get what  
23 we want." It isn't too important, as far as my experience  
24 is concerned.

25 COMMISSIONER WALLS: In fact, you are stopping  
26 at 50% and you are starting with a salary of \$25,000  
27 because that is where the 50% starts; all salaries above  
28 \$25,000 would be taxed on the same percentage.

29 MR. STEINER: That is correct.

30 THE CHAIRMAN: The next item is with regard to



10 1 inflation as it affects interest income. If adjustments  
2 were made to provide against the loss of one's money  
3 resulting from inflation - is not the bargain with  
4 regard to fixed income securities that one recognizes  
5 inflation in buying them and the interest rate is fixed  
6 accordingly? People know they are not inflation proof  
7 when they buy them. It would be very nice if you could  
8 get all the ~~quantities~~ you require in one security, but that  
9 just isn't possible. That is why portfolios are varied,  
10 as you know.

11 MR. STEINER: I would like to give you the  
12 basic idea: this is where this question comes in, and  
13 I feel very strongly about it. I don't know of another  
14 place where it has been put into effect, but it is fair -  
15 if you compare what the taxpayer actually contributes,  
16 realize that 5% interest is not income in the true sense  
17 because it is about 2½% depreciation on the capital which  
18 brings that income - if a fellow adds up his 5% his  
19 capital is depleting, like depletion on mines and anything  
20 like that.

21 If a fellow works a grader and just gets what  
22 he earns, the machine income, that is what he gets for  
23 work with that grader minus fuel and oil and so on - he  
24 will lose that grader after five years because he has no  
25 money to replace it.

26 THE CHAIRMAN: I am not quarrelling with the  
27 logic of what you say. I think I would comment to the  
28 effect that Canada's rate of inflation is now one of the  
29 lowest, and if this kind of adjustment was needed, I  
30 would have hoped that countries suffering pure inflation



1 would have picked it up and brought such a modification  
2 into their own tax laws. You don't know of any precedent;  
3 I don't know of any precedent. There have been adjustments,  
4 of course, in depreciation, as far as the European  
5 countries are concerned, in different ways. I haven't  
6 found one in respect of the point you make here.

7 While I acknowledge the validity of it, I  
8 presume that we haven't seen it because of the vast  
9 difficulty of putting <sup>it</sup> into effect.

10 MR. STEINER: Do you think the difficulty would  
11 be very great?

12 THE CHAIRMAN: I would think so.

13 MR. STEINER: I think taxpayers catch on to  
14 deductions fast.

15 THE CHAIRMAN: That is an interesting point  
16 you make about investment income and the surcharge there.  
17 I am a little doubtful as to the justification for it.  
18 Taxpayer's investment income comes as a result of having  
19 made savings during his period of earning, and I would  
20 have thought he should be taxed on the same basis with  
21 regard to the savings as with regard to his earnings.  
22 <sup>easy</sup>

It is not/come money or anything of that kind; sacrifice of his  
living standards for something else during the period of earning  
in order to achieve investment income.

25 MR. STEINER: I readily agree with you. I am  
26 in no position to withhold the disadvantage to him. I  
27 will put it that way if you believe me.

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29  
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1 The thing would hinge on the idea that taxpayers'  
2 ability to work and earn wages is limited to his age and  
3 if properly invested, is dealt with properly - it is  
4 indefinite - everybody knows, of course, this usually  
5 doesn't work out that way but that is the philosophy.

6 I have known that investment earnings are  
7 actually a greater burden in other countries. This is  
8 done by charging an additional capital tax on all the  
9 assets you own.

10 THE CHAIRMAN: There are various ways of  
11 accomplishing the same thing. I think Mr. Steiner, what  
12 you are saying is that savings should not be taxed as  
13 heavily as expenditure and, of course, indirect taxes come  
14 on that and there are other ways of getting at it, perhaps.  
15 This is certainly one.

16 COMMISSIONER WALLS: You have brought out rather  
17 a moot question that has been bothering us for some time.  
18 That is: you assume that corporation income taxes are  
19 passed on to the customers. Now, of course, it is very  
20 hard to be able to know exactly to what extent that is  
21 true but we have recently had participants before us who  
22 stated that if there was a reduction in corporation taxes,  
23 that that would all be passed on to the consumer.

24 My main question, however, in this section is:  
25 that you wish to take off the 20% dividend tax credit  
26 and then recommend that there should be a reduction in  
27 corporation taxes which would offset it. Now, the divi-  
28 dend tax credit only totalled a yield of, I believe,  
29 \$54 million, 4% of the corporation income tax. Now, in  
30 view of the fact that the implementation of your





1 suggestion would only enable a slight reduction in the  
2 corporation income tax rate, do you still think it is  
3 worthwhile? Are you still in favour of it?

4 MR. STEINER: For my personal benefit, for  
5 goodness' sake leave it on, but I would still ---

6 COMMISSIONER WALLS: No, but I mean if you are  
7 going to follow your suggestion of a compensatory reduc-  
8 tion in corporation income tax would you achieve anything  
9 from making the change?

10 THE CHAIRMAN: Before one comes to that, should  
11 one point out to Mr. Steiner, do you think, Mr. Walls,  
12 that his premises here are not correct? The dividend  
13 credit was not imposed at the time that the corporation  
14 tax was 20%; it came along when the corporation tax was  
15 really higher than that. First of all, it was 10%, and  
16 then ultimately raised to 20% and I think, while it is  
17 sometimes said it is to eliminate double taxation,  
18 corporate income, and, of course, it has some merits in  
19 that direction, but I think it ~~was~~ also directed, and perhaps  
20 more importantly directed, to encourage Canadians to  
21 invest in Canadian securities.

22 As a measure of that, isn't it a good measure?  
23 It seemed to me it is attractive to Canadians and influences  
24 them to invest in Canadian securities.

25 MR. STEINER: I would say, generally speaking,  
26 I am very suspicious about achieving anything along  
27 equal taxation through the Tax Act and do whatever you  
28 want afterwards by other means of the Government. This  
29 4%, it is probably less than I expected, or perhaps  
30 thought. I never saw any papers. I still believe it is



G3 1 an oddity and there might be good reasons for keeping it  
2 on and as far as I am personally concerned, by all means  
3 keep it.

4 THE CHAIRMAN: But your suggestion is that it  
5 permits unequal treatment, I think?

6 MR. STEINER: Well, I would think so, especially if  
7 the tax the corporation pays is passed on to the consumer and  
8 doesn't actually reduce finally the dividend to the share-  
9 holders.

10 THE CHAIRMAN: I don't think anyone suggested  
11 this tax is fully passed on.

12 MR. STEINER: I don't think it can be passed on  
13 fully.

14 THE CHAIRMAN: I don't think anyone suggested  
15 that. If the tax were, on the average, passed on, the  
16 dividend credit would be about right to eliminate double  
17 taxation, would it not?

18 MR. STEINER: Yes, and that is a good means of  
19 hiding the difference in treatment between a foreign  
20 and western and Canadian. It's not only 15% or 10%; it's  
21 20%, 30%, 40% and things like that.

22 COMMISSIONER GRANT: Your submission here is  
23 really based on the fact if there was a lower corporate  
24 rate that there would be more available to the share-  
25 holders, and that it would be passed by way of dividends  
26 to the shareholders?

27 MR. STEINER: Yes.

28 COMMISSIONER GRANT: Therefore, if they receive  
29 more money by way of dividends, they have less need for  
30 relief from that which is called double taxation.



1 MR. STEINER: It looks as if the possibility of  
2 increasing dividends would only amount to 4% on account  
3 of heavy foreign ownership in our country and so they  
4 will get, theoretically, an advantage of 4% less one of  
5 equity.

6 COMMISSIONER GRANT: This is on the basis that  
7 if a person is receiving \$4,000 by way of salary, and it is  
8 increased to \$6,000 by way of salary, he is going to be  
9 better off, regardless of the fact that he is going to pay  
10 more taxes?

11 MR. STEINER: Yes. It would bring it back  
12 actually to the first stage, wouldn't it?

13 THE CHAIRMAN: Capital investment in homes. I  
14 am interested to see that you believe that the hidden  
15 income derived from capital investment in private homes  
16 be included in the income tax return and subject to income  
17 tax like any other similar income. You were probably  
18 in the room a few minutes ago when the last participant  
19 suggested a deduction of interest and we did raise the  
20 point that because of what you call hidden income was  
21 not now taxed that there was an incentive to home owner-  
22 ship. You would agree with that, wouldn't you?

23 MR. STEINER: I knew exactly when we sold our  
24 home what the consequences would be and saw the idea  
25 behind it. We invested our money. We pay income tax on  
26 what we get now, and so on.

27 My strongest objection is actually on anything  
28 like that you do destroy your total income and it does  
29 not represent your ability to pay. It may or may not.  
30 If you are a home owner it doesn't represent your ability



G5

1 to pay.

2 THE CHAIRMAN: You are making a recommendation  
3 to achieve equity between tenants and home owners, are  
4 you not?

5 MR. STEINER: That is what it would amount to.

6 COMMISSIONER WALLS: The only thing that concerns  
7 me is the mechanics of how you are going to do this. I  
8 think you suggest using the assessed value. Well, in  
9 Canada, there is such a wide variance in the method of  
10 assessing between one province and another, that you  
11 have quite a job, first of all, to get a uniform form of  
12 assessment. Not only that, but some provinces base their  
13 assessment on even different years of valuation, including  
14 valuation of sales and valuation for houses, and there is  
15 such a wide variation in assessment practice in Canada  
16 that do you not think a very considerable job would have  
17 to be done before you could utilize your method of valua-  
18 tion?

19 MR. STEINER: I agree there is quite a bit of  
20 trouble because the Federal Tax Act does not provide  
21 assessment. Of course, you can overcome it by a more  
22 complicated method of treating a house like a revenue  
23 property.

24 COMMISSIONER WALLS: Basing it on rental value?

25 MR. STEINER: Yes, basically estimating rental  
26 value of your own and then go through all the deductions.

27 THE CHAIRMAN: Why did they cease to do this  
28 in England?

29 MR. STEINER: I have no idea.

30 THE CHAIRMAN: I haven't found that out yet.





1 MR. STEINER: I know it is a rule in Switzerland.

2 THE CHAIRMAN: It is done in Switzerland?

3 MR. STEINER: Yes, it is part of your income,  
4 the estimated rental value of the home or the suite you  
5 use yourself, and everything else goes along the same  
6 line as a revenue property.

7 COMMISSIONER WALLS: I think your rental value  
8 idea is much better than assessed value.

9 MR. STEINER: Probably I would say so.

10 THE CHAIRMAN: Now, estate taxes. You submit  
11 that bequests to children should be exempted before  
12 calculation of taxes, or that a lower rate be applicable  
13 on bequests to children.

14 I think that the exemption would be bequests to  
15 the spouse; is that not right?

16 MR. STEINER: Yes, I would think that an estate  
17 tax between a husband and wife is not justified because  
18 they have all other aspects of marriage and economic  
19 unity. I do not think there is much justification for  
20 doing that and it leads to a lot of - probably most of  
21 the people avoiding it by going to a lawyer and getting  
22 all things set up, and changing them again when the estate  
23 tax changes, and things of that nature. This isn't very  
24 clear here, but I would say the Estate Tax Act should be  
25 based on the kind of luck you have in getting bequests  
26 out of an estate and there is no luck involved between  
27 husband and wife; not too much involved between parents  
28 and children. It belongs to them.

29 As I see the Act - the way I would think it  
30 should be, the rate should depend on blood relationship



G7 2 1 on one side and the amount you get on the other side for  
2 each parcel which goes out beyond that family; not  
3 depending on the total of the estate. As the way I  
4 understand it now, if there is an estate of \$200,000,  
5 \$60,000-odd deducted, and \$40,000-odd taxable, never mind  
6 who gets it. It is not a good Act in that regard because  
7 if I get it from somebody I have never known, I think  
8 there was a lot of luck involved and perhaps I wouldn't  
9 mind paying that tax. I would see the reason for it.  
10 Then it actually would be assessed on the individual's  
11 bequest going out, not on the estate. That is my point  
12 of view.

13 I realize there can be many different ways of  
14 looking at it.

15 THE CHAIRMAN: This is an interesting statement  
16 of yours. Mr. Grant has a question.

17 COMMISSIONER GRANT: Just following along your  
18 reasoning, what you would advocate is a succession  
19 duty rather than an estate tax, An inheritance tax?

20 MR. STEINER: I quite agree with that view if  
21 this covers the idea better. I am not too familiar with  
22 the English language in technical terms.

23 COMMISSIONER GRANT: That is what you advocate.  
24 I don't know whether you would like to explore any  
25 further your statement that estate taxes can, in most  
26 cases, be avoided with proper advice. I know that they  
27 can be reduced but I am not aware, except in very small  
28 estates, how they can be avoided entirely.

29 MR. STEINER: You might be quite right. I don't  
30 have that large an estate that I couldn't turn around



1 probably - well, look at the way it is now: if my wife  
2 and I divide up \$100,000 in \$60,000 on one side and  
3 \$40,000 on the other, we can save for the time being.

4 COMMISSIONER GRANT: You mention the Commorientes  
5 Acts of the various provinces, and you feel that they are  
6 working in favour of the state rather than in favour of  
7 the estate. The Commorientes Act or Survivorship Act  
8 was passed, if I remember correctly, to overcome the  
9 situation where a husband and wife both meet death as a  
10 result of a common accident, and where there is life  
11 insurance involved and where they have not expressed  
12 their intention as to how their estates should be  
13 administered by way of preparing a will, or other testa-  
14 mentary disposition.

15 The provisions of the Commorientes Act can be  
16 overcome by a will. I don't think you are overlooking  
17 that fact, Mr. Steiner, although you don't mention it.

18 MR. STEINER: I would say this part has not been  
19 written by me. I just knew the fact that the danger  
20 existed and then I asked somebody, a friend of mine, to  
21 put it into those words and I am not familiar with all  
22 the details of it and it was at a time, as I mentioned,  
23 I had to go abroad so I said, "If that has expressed  
24 what I want here, that is my impression."

25 COMMISSIONER GRANT: In a word, it is designed  
26 to take care of a case where a husband and wife meet  
27 death as a result of a common accident when they haven't  
28 left a will. The life insurance in such a case might not end  
29 up as intended because the law of <sup>the</sup> province in which they  
30 were domiciled at the time of their death might deprive



GO 1 their children of a considerable portion of that life  
2 insurance. This is to overcome that, so it has a good  
3 effect, too, and you are not bound by it at all, if a  
4 different intention appears in the will.

5 MR. STEINER: My wife and I, we both made out  
6 wills in full to the other, so she would inherit from  
7 me if we died simultaneously and then the children would  
8 inherit the whole thing from her.

9 COMMISSIONER GRANT: Assuming she is younger.

10 MR. STEINER: If we do not put in a provision  
11 that in the case of simultaneous death things have to be  
12 done differently.

13 COMMISSIONER GRANT: Under her will I assume  
14 that your family will inherit. Now, if she did not have  
15 a will your estate would be administered as an intestacy  
16 in accordance with the law of the province in which  
17 you were domiciled and that could mean that a part of  
18 that estate would go to her father and mother, if living,  
19 and part to your children.

20 THE CHAIRMAN: Mr. Steiner, one more question  
21 on that. You have indicated that the children should  
22 be taxed at a low rate. What are your thoughts as to  
23 that? If they are healthy, strong children, why not tax  
24 them good and well?

25 MR. STEINER: Well, I thought a low rate for  
26 them, if it is perhaps a really big estate, and so on,  
27 otherwise I would rather base it on this: that it belongs  
28 to them, anyway, and it's a family. It belongs to that  
29 family and they might have contributed quite a bit to  
30 building it up. You don't just keep track of the times





1 which most people very often lend to - it is hard to  
2 figure out who contributed to this and who contributed  
3 that, especially in a business.

4 THE CHAIRMAN: Thank you. You would abolish  
5 the withholding tax on foreign investors because you say  
6 that it is not borne by the foreign investors, but borne  
7 by the Canadians by an adjustment of the interest rate.

8 I think I would draw your attention to the  
9 fact that in many cases it is borne by the foreign  
10 governments in that they allow a credit on the taxes  
11 which are paid abroad and to that extent there is no  
12 cost to Canada.

13 MR. STEINER: Well, I would say first it is  
14 limited to what I said on interest income, not just on  
15 foreign investments. It would not include dividends.  
16 It could be that - well, I think where this is the case,  
17 where there is a tax treaty involved, which they finally  
18 got back, I think you have a point.

19 For myself, my experience was it was actually  
20 connected with Switzerland, and there is no tax treaty  
21 with taxes in Switzerland. They just say, "How much is  
22 left?" and everybody says that all over the world. I  
23 suppose it might be less important where you get a credit;  
24 it doesn't hit him as hard. I quite agree with the prin-  
25 ciple in that regard.

26 THE CHAIRMAN: I haven't any doubt that the  
27 effect is just as you say it is where there is no treaty,  
28 and they certainly negotiate so far as the lender is  
29 concerned and have regard to the net. Where he can  
30 claim it off his own tax payments, it will be totally



G11 1 different.

2 I don't know that on my part I want to spend  
3 much time on your thoughts with regard to corporation  
4 tax rates. I might say that in view of the experience  
5 which we had in this country with excess profit taxes  
6 I would be very loathe to see a relationship of taxation  
7 to capital, whether it be working capital or what kind  
8 of capital it be.

9 The difficulty of determination of the base  
10 is quite extreme. There are many cases where the amount  
11 of capital is not clear. Companies that operate with  
12 long-term leases, for instance, no matter what one does  
13 by way of recomputation it is a little hard to give the  
14 precise basis for tax purposes. In many service companies  
15 where capital is not a factor, and I don't relish seeing  
16 us involved in this, but if the principle were of such  
17 importance as it probably was with excess profit tax  
18 during wartime, then we must certainly meet it. I am  
19 very doubtful as to whether the principle is that impor-  
20 tant.

21 MR. STEINER: Well, I state here that, say,  
22 on \$50,000 profit in one case may mean 25% profit and  
23 rate of tax a certain percent and in the other case it  
24 might mean 2 $\frac{1}{2}$ % profit and tax, 30%. It does not reflect  
25 in any way the ability to pay. Some of the troubles in  
26 here are original. Others are based on my past experience.  
27 I haven't seen any problem. If they can carry on the  
28 maximum rate, they can do business and have a lot of  
29 profit, but if they make a lot of profit with little  
30 investment they would be hit by the 50% or the 40%,



G12 1 whatever it would be, right from the beginning.

H/PB/35 2 They should make the concession there and say,  
3 Anyway, the first \$10,000 would only be 20%, whichever  
4 is lower. You can always look to the smaller companies,  
5 a little bit in that way, and from there on - I don't  
6 know the troubles which have been, but it surprises me  
7 that there is so much trouble because you have a balance  
8 sheet there. You can see your working capital.

9 THE CHAIRMAN: Well, I certainly recognize it  
10 is a method of placing corporation tax on an ability-to-  
11 pay base.

12 MR. STEINER: It wouldn't be in favour of my  
13 employer.

14 THE CHAIRMAN: What is that?

15 MR. STEINER: It wouldn't be in favour of my  
16 employer.

17 THE CHAIRMAN: Well, then, you have a most  
18 successful employer. I am glad to hear that. Property  
19 tax, I think, is next. Property tax on page 16. Mr.  
20 Wells?

21 COMMISSIONER WELLS: You propose the municipal  
22 property tax should be discontinued and substituted by  
23 allocation from personal income tax. Have you any  
24 conception of the total amount of money that is collected  
25 by municipalities from property taxes?

26 MR. STEINER: No, I didn't have any time. It  
27 is the principle I base everything on.

28 COMMISSIONER WELLS: I think you have to go  
29 I believe  
30 into this. It amounts to about \$1.3 billion. Are you  
going to recommend that  
to pay for this you are going to



HC 1 double income tax or establish another tax to pay for  
2 this?

3 MR. STEINER: If you want to get it through  
4 income tax and this is needed, there is no use beating  
5 around the bush, I would say.

6 COMMISSIONER WALLS: You would suggest that  
7 the income tax, if necessary, would have to be doubled  
8 to take care of this?

9 MR. STEINER: It would have to be increased to  
10 take care of it. It would just be another way of getting  
11 the money out.

12 COMMISSIONER WALLS: This question I have  
13 asked before, because I would like to get it clarified:  
14 when people started in this country they built a home,  
15 they built their own road, built their own well, put in  
16 their own septic tank and as they did these things they  
17 appreciated the value of their property.

18 MR. STEINER: Yes.

19 COMMISSIONER WALLS: Why should the property  
20 owner today not at least be taxed for these same services,  
21 for the roads that are put in them, for the sewage that  
22 is put in, and for the water supplies they get - why  
23 would you remove from the property owner this tax that  
24 is attributable to these additions and appreciates the  
25 property and spread it out so everybody has to contri-  
26 bute?

27 MR. STEINER: I suppose even under the present  
28 system everybody contributes. The tenant does. I will  
29 agree to some extent on this. I would say it has nothing  
30 to do with education and school tax.





1 COMMISSIONER WALLS: I will agree.

2 MR. STEINER: I see from this philosophy you  
3 have there it puts the municipality - it functions actually  
4 as an association of home owners more than a political  
5 unit. I might have a different background and judge it  
6 from the different background. I would like to see the  
7 municipality being more than an association of home  
8 owners.

9 THE CHAIRMAN: There are two kinds of taxes:  
10 there are the user taxes and the social taxes. We have  
11 had many representations to us that the social <sup>taxes</sup> /should be  
12 taken off municipalities. I don't think anybody has gone  
13 so far as to say the user taxes should be taken off as  
14 Mr. Grant said.

15 MR. STEINER: You could have your municipal  
16 income tax. That is a different story.

17 THE CHAIRMAN: Capital gains from real estate -  
18 I was wondering why you restricted your remarks to real  
19 estate. It would seem to me that the tax to which you  
20 refer in mentioning real estate such as appreciation  
21 brought about by circumstances outside of the owner's  
22 control and to which he has contributed would apply  
23 equally to many other forms of assets such as securities.  
24 Why narrow this recommendation to real estate?

25 MR. STEINER: I would come back to what Mr.  
26 Walls said. It is a counterpart in the whole system  
27 of the real estate increasing in value - it is brought  
28 about very often by efforts and outlays, financial out-  
29 lays, of the municipality, and so the capital gains tax  
30 has more justification than on anything else. That is



14 1 why I would draw the line. If you want to be quite  
2 honest you should also take care of losses, too.

3 THE CHAIRMAN: Isn't the growth of companies  
4 brought about largely by increase of population?

5 MR. STEINER: That is a direct result of  
6 municipal efforts. It might be the corporations have  
7 to provide, but that is what I think - the municipality  
8 puts in sewers and streets and so on and the value appre-  
9 ciates.

10 THE CHAIRMAN: I think I have got your point.

11 MR. STEINER: That is an important point I  
12 would base it on; why single them out?

13 THE CHAIRMAN: I think the point is, here, the  
14 issues would relate only to the contribution of the muni-  
15 cipality. I was merely thinking in terms of all this  
16 contribution to which the owner has made no service him-  
17 self.

18 You bring me back to the contribution of the  
19 municipality and I understand the point.

20 COMMISSIONER GRANT: Isn't the owner paying for  
21 it? Isn't he supposed to be paying for these improvements?

22 MR. STEINER: Quite often, but I suppose it is  
23 not always guaranteed. You build a big auditorium and  
24 everybody profits, but I don't think they can go back to  
25 the owner and say, "You owe us \$5 or \$10 for the audi-  
26 torium." I suppose there is a certain limit to where the  
27 owner can be reached. There have been certain amounts  
28 paid out by the municipality.

29 COMMISSIONER GRANT: The owner is assessed for  
30 the sewage system and he pays through his rates; he pays



H5

1 for the water system that is put in - these rates are  
2 based on an amortized payment scheme on capital cost  
3 involved and he pays for his streets that are put in.  
4 He pays for his sidewalk. He pays for the paving of  
5 the streets, so that these are not gifts from the  
6 municipality that have increased the value of his real  
7 estate.

8 MR. STEINER: I suggest there are still a lot  
9 of other things, otherwise property tax wouldn't be  
10 covered; couldn't be attached to certain properties and  
11 amounts collected from that property. This was, of course,  
12 capital gains tax - it would bring you a lot of money:  
13 \$1.8 billion.

14 COMMISSIONER GRANT: I am not arguing. I am  
15 merely pointing out that these are not conferred upon  
16 them.

17 MR. STEINER: Already paid for it to some  
18 extent. I think it is a question of how much they already  
19 contribute which would be difficult. I would suggest  
20 there is a lot of other expenditures.

21 COMMISSIONER GRANT: No doubt.

22 MR. STEINER: Which help create the value of the  
23 property.

24 THE CHAIRMAN: I have no further questions.  
25 I note in respect of the tax treaty, it would probably  
26 be desirable for Canada to have a tax treaty with Switzer-  
27 land, and I understand that steps have been taken to  
28 endeavour to achieve that. You make a statement with  
29 regard to Switzerland's tax treatment of other countries  
30 and certain exemptions with regard to the income of



1 mortgages. My information is that that statement is not  
2 quite accurate. Article VI of the German-Swiss Convention,  
3 states that the source country will either not tax or  
4 tax at low-rate income from capital and such  
5 income will be taxed in the country of residence. That  
6 is taken from the treaty.

7 MR. STEINER: I don't know if they have changed  
8 it. I will say, at the outset, the Swiss-German Treaty  
9 was the first one that attached the taxability of mortgage  
10 to the real estate lands which is contrary to any law  
11 otherwise in Switzerland. The tax is payable to where  
12 the creditor is and this can be achieved with tax treaties,  
13 and in this case here, if Swiss mortgage money were  
14 invested here and hit by the 15% with the tax treaty it  
15 wouldn't be taxable any more in Switzerland, which could  
16 be quite an advantage if you like that kind of investment.

17 THE CHAIRMAN: I quite agree. If that were  
18 the condition it would be most acceptable to Canada, I  
19 believe.

20 COMMISSIONER GRANT: Before passing over 13,  
21 Mr. Chairman, I would like to have a little discussion  
22 with Mr. Steiner on what he proposes there. Do I under-  
23 stand the situation in Switzerland to be this: that the  
24 cantons determine their own tax and it is collected for  
25 them by the central government?

26 MR. STEINER: Just the other way around. The  
27 set-up is that - I don't want to refer to Switzerland.

28 COMMISSIONER GRANT: I am only asking for infor-  
29 mation.

30 MR. STEINER: The situation there is that the





H7 1 municipalities get the biggest part of all the taxes to  
2 2 begin with, which emphasizes the importance of the muni-  
3 3 cipality; that is part of their philosophy.

4 COMMISSIONER GRANT: Who determines the tax?

5 MR. STEINER: I will tell you how the tax is  
6 assessed. The assessment is done at the municipal level  
7 and is done entirely different from what we know because  
8 first of all they start with a consultant and a current  
9 registry of the inhabitants. That is the way they start  
10 out. It is done by - I would say this: there are 25  
11 cantons, 25 possibilities, but the general rule would be  
12 the municipality sends out forms. They come back to the  
13 municipal council together with another five or ten  
14 people. The secretary is actually the fellow that does  
15 the work.

16 They make the assessment and along comes the  
17 Commission from the canton which overrules the municipality  
18 and they together finalize, and this assessment, as a  
19 general rule, would include the assessment for federal  
20 tax.

21 The Federal Government has, only since about 10  
22 years ago, the right for income on capital tax - before that  
23 levied it based on emergency legislation since about 1917,  
24 I suppose, with the exception of one year. This basic  
25 taxation - that is the basis for the municipality, the  
26 cantonary and Federal Government tax. The tax would  
27 generally be collected by the municipality and then  
28 distributed to the various agents who have the right for  
29 taxes.

30 The municipality is already split up, at least,



1 in two, and that is the general administration and the  
2 church. The church is financed by this if you are  
3 belonging to one of the churches.

4 COMMISSIONER GRANT: You have strong municipal  
5 local government and your central government, (and when I  
6 say you, I mean Switzerland,) the central government has  
7 not got the same powers that your junior forms of govern-  
8 ment have.

9 MR. STEINER: The main power is with the  
10 cantons. The central government couldn't tax anything  
11 unless it has specified in the Constitution that it has  
12 a right to do so.

13 COMMISSIONER GRANT: You feel that the taxpayer's  
14 dollar is more effectively and better administered at  
15 the municipal level?

16 MR. STEINER: Definitely so.

17 COMMISSIONER GRANT: That is one of the princi-  
18 pal reasons why you recommend that our Constitution  
19 should be changed to deprive our central government of  
20 some of the strength which it now has and transfer that  
21 to the junior governments?

22 MR. STEINER: I would say this is the reason,  
23 but I would say at the same time it is an absolute pipe  
24 dream, of course.

25 COMMISSIONER GRANT: Pardon?

26 MR. STEINER: It is an absolute pipe dream.  
27 I think sometimes you might say something you know nobody  
28 would follow out, but you hope someone somewhere will  
29 listen.

30 COMMISSIONER WALLS: I think perhaps some of



89 1 our Premiers don't think it is a pipe dream.

2 MR. STEINER: Democracy at the municipal level  
3 is best where people can see the limitations of what the  
4 state can do for them. Over in Ottawa it just goes.

5 THE CHAIRMAN: What is the base on which the  
6 municipalities levy tax in Switzerland?

7 MR. STEINER: It is always an income and a  
8 capital tax. The base is the cantonary law. That means  
9 25 laws in a country which is one-quarter bigger than  
10 Vancouver Island.

11 THE CHAIRMAN: The base is income and capital,  
12 and there is no property tax?

13 MR. STEINER: No, that is considered to be out-  
14 dated and not fair, and not having any bearing on ability  
15 to pay. Property is included in that it is valued as  
16 capital. After deducting your mortgages the rental value  
17 of your home is included as income. You deduct your  
18 expenses. They feel, by this way, you get a true picture  
19 of your ability to pay.

20 THE CHAIRMAN: The capital tax on the individual  
21 is what is referred to in some countries as net worth tax?

22 MR. STEINER: As what?

23 THE CHAIRMAN: As net worth tax.

24 MR. STEINER: As like a balance sheet, actually.  
25 They include the value of the furniture at a reduced price.

26 COMMISSIONER GRANT: Our tax on property is a  
27 capital tax.

28 MR. STEINER: Yes, that is right, but they are  
29 kind of hooked with the capital tax. Without some limita-  
30 tion on it it is pretty hard on the fellow who lives on



H10 1 his investment.

2 I still would like if you would permit me to come  
3 back on this reduction for depreciation on your capital.

4 THE CHAIRMAN: By virtue of inflation?

5 MR. STEINER: Behind the idea I have in mind,  
6 if nobody has done it - if we do only things somebody  
7 else has done before, I don't think it is very progressive.  
8 The basic position should always be justice and an equi-  
9 table tax. I think a fellow who loses on his investment  
10 on his interest income should have a good claim for  
11 being recognized whether it has been done before or not.

12 THE CHAIRMAN: Would you penalize the man in  
13 receipt of dividends because his dividends have gone up  
14 because of inflation? It would have to work in the  
15 opposite direction, would it not?

16 MR. STEINER: I wouldn't penalize. It just  
17 makes good for what he lost. He has the possibility of  
18 recovering. The assets behind the shares are bound to go  
19 up with the general increase in the prices and so probably  
20 he will try to keep them. If you have nominal assets  
21 there is no escape from it, and you look back over 50,  
22 60 years - anybody who lived on his interest, he is  
23 broke now. He wouldn't have enough capital to provide -  
24 he could never provide for his livelihood.

25 THE CHAIRMAN: Thank you, Mr. Steiner, very  
26 much, indeed. This has been most interesting and very  
27 helpful to us. We are extremely grateful. It is nice  
28 of you to come and see us.

29 We will stand over until 9.30 tomorrow morning.

30 THE SECRETARY: Yes, 9.30, the Alberta Wheat Pool.

--- Adjournment



# ROYAL COMMISSION ON TAXATION

## HEARINGS

HELD AT  
CALGARY  
ALTA.

VOLUME No.:

42

DATE:

AUGUST 22 1963

OFFICIAL REPORTERS  
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TORONTO, ONTARIO

NR/dpw

ROYAL COMMISSION ON TAXATION

Hearing held in Court Room  
No. 2, Second Floor, Court  
House, Calgary, Alberta, on  
the 22nd day of August, 1963.

COMMISSION:

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S.M. MILNE

MR. CHARLES E.S. WALLS

LEGAL ADVISER:

MR. J.L. STEWART, Q.C.

RESEARCH DIRECTOR:

PROF. D.G. HARTLE

SECRETARY:

MR. G.L. BENNETT



ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF CALGARY, ALBERTA.

August 22, 1963

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CALGARY, ALBERTA.

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A2 1 --- On commencing at 9.30 a.m.

2 THE CHAIRMAN: Mr. Secretary, I think we have  
3 reached the hour.

4 THE SECRETARY: Good morning, Mr. Chairman and  
5 Commissioners. The first brief this morning is being  
6 presented by the Alberta Wheat Pool. Representing the  
7 Wheat Pool this morning is Mr. Nelson Malm, first Vice-  
8 President. Mr. Malm has a number of associates with  
9 him this morning who he will introduce to you in a few  
10 minutes, and I would like to enter this brief into the  
11 record as Exhibit 164.

12  
13 --- EXHIBIT NO. 164: Submission of The Alberta Wheat Pool.

14  
15 SUBMISSION OF THE ALBERTA WHEAT POOL

16 Appearances: Mr. N. Malm  
17 Dr. W.D. Gainer  
18 Mr. G.H. Allen, Q.C.  
19 Mr. J.W. Madill  
20 Mr. J.F. Cornwall  
21 Mr. Baker  
22 Mr. O.J. Broughton

23 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
24 morning, Mr. Malm.

25 MR. MALM: Good morning.

26 THE CHAIRMAN: We are very glad to see you this  
27 morning, and we have read your submission with considerable  
28 interest, I might say. Let me introduce the Commission to  
29 you. Our names are all before us, and if you, on your part,  
30 would introduce your associates to us, I would appreciate it.

MR. MALM: Thank you, Mr. Chairman. I am  
pleased that the Alberta Wheat Pool has an opportunity of  
presenting a brief to your Commission and we shall try and



A3 1 explain our position as clearly as possible from any ques-  
2 tions you may ask of us. I may say how pleased I am  
3 personally that there is a lady on the Commission. I am  
4 sure it will add to the soundness of your findings in the  
5 final analysis.

6 I would like, at this time, to introduce some of  
7 the gentlemen I have with me connected with the Alberta  
8 Wheat Pool, and some advisors. On my far left here is Mr.  
9 Allen, who is our counsel, and Dr. Gainer of the Univer-  
10 sity of Alberta.

11 On my far right here is Mr. Madill and Mr.  
12 Cornwall. Sitting further back here I would like to intro-  
13 duce our General Manager, Mr. Baker, and the Secretary of  
14 our Board, Mr. Broughton.

15 Before we proceed, we are not trying to confound  
16 the Commission with our numbers at all, but I may say that  
17 as far as the general background of the Alberta Wheat Pool  
18 is concerned, I may claim that I am fairly familiar with it,  
19 but when it comes to taxation and legal angles, I am not  
20 pretending to be an expert at all. In fact, I might call  
21 myself a sagebrush economist, which probably is not too  
22 orthodox.

23 However, any questions that are directed to me  
24 I shall do my best to answer them, and when I think I am  
25 in too deep water, I am going to call on these other gentle-  
26 men to carry on for me. Thank you.

27 THE CHAIRMAN: We are delighted that you are  
28 well-reinforced. This is a difficult problem, Mr. Malm.  
29 We are not easily intimidated now by numbers. We have got  
30 used to that. We have, undoubtedly, a number of questions



A4 1 to put to you and your people. Should we proceed now to  
2 ask questions? You have no further introductory remarks  
3 you would like to make?

4 MR. MALM: Not at this time, Mr. Chairman.

5 THE CHAIRMAN: Very good. I think I might say,  
6 without reservation, that we do accept immediately the  
7 valuable economic and social service that the co-operative  
8 movement has been carrying on. We recognize those things  
9 that you say about the achievements of the co-operative  
10 movement. We are concerned with only one matter; namely,  
11 taxation, and we have got to go to taxation.

12 The contract which you have with your members,  
13 is that public property? You have not included it in  
14 your brief.

15 MR. MALM: At the present time we haven't a  
16 contract. We do not have a contract as such with our  
17 members. The contract with the members which was initiated  
18 in 1923 was discontinued in 1930 and as such, we do not  
19 have a contract with our members.

20 THE CHAIRMAN: If you do not have a contract  
21 with your members, you must have some arrangements with  
22 the members to cause them to be members. What is the under-  
23 standing or arrangement? What do you have with the members?

24 MR. MALM: Probably I should expand that a little  
25 bit. At the present time, in certain aspects of our opera-  
26 tion, particularly in the handling of forage seeds, we  
27 have pooling contracts whereby we pay an initial payment,  
28 and upon the sale, the final sale of these goods, the  
29 forage seeds, if the final sale is higher than the initial  
30 price, there is a final payment made on these things.



A5 1 Now, that applies to forage seeds.

2 In the case of the cereals, wheat, oats and barley,  
3 they are handled on behalf of the Wheat Board. We have no  
4 contract with our members, as such.

5 THE CHAIRMAN: The financial statements of the  
6 Alberta Wheat Pool are available to all members, I assume?

7 MR. MALM: They are.

8 THE CHAIRMAN: And probably published, are they?

9 MR. MALM: They are published, yes.

10 THE CHAIRMAN: Would you have a copy there?

11 On the balance sheet there is capital, I assume? The  
12 members subscribe capital; a small amount?

13 MR. MALM: Only capital to the extent of \$5,  
14 which is called membership, is subscribed by the members  
15 initially to become a member.

16 THE CHAIRMAN: And when that \$5 is subscribed,  
17 the member receives a certificate for his \$5?

18 MR. MALM: He receives a membership card, yes.

19 THE CHAIRMAN: And the membership card is  
20 issued in accordance with the bylaws defining what member-  
21 ship is and by virtue of that you really have a contract  
22 with the members; would that not be correct?

23 MR. MALM: Well, I don't know. Would you care  
24 to answer that, Mr. Allen?

25 MR. ALLEN: I think maybe I can help a little  
26 bit. When the Alberta Wheat Pool was originally formed in  
27 1923, they had what they called their first series  
28 contract under which they undertook to market the grain  
29 on a co-operative basis for the members and had a right to  
30 deduct certain reserves. That was superseded later on by





A6 1 the second series contract when the Wheat Pool acquired its  
2 elevators, and at that time there was provision made for  
3 the deduction of not only maximum reserves and elevator  
4 reserves, but in those days the pools were operating purely  
5 as a pooling and marketing agency for the farmer.

6 When the conditions brought about the formation  
7 of the Canadian Wheat Board, and so on, there was no more  
8 selling of wheat on the pooling basis. Consequently, the  
9 contracts really fell into desuetude. They weren't approp-  
10 priate to the situation, but the constitution and bylaws  
11 under which the Wheat Pool was incorporated, under which  
12 they operated, defines the rights and interests of the  
13 members.

14 You can be a member of the Wheat Pool because  
15 you signed one of the early cards and by patronizing its  
16 facilities and purchasing an interest in the reserves.  
17 That is the basis, really, of membership. The rights,  
18 duties and obligations of the members are defined by the  
19 bylaws and the acts of incorporation.

20 THE CHAIRMAN: Is that little book before you a  
21 copy of the bylaws?

22 MR. ALLEN: Yes, it is. Would you like to have  
23 that, sir?

24 THE CHAIRMAN: Yes.

25 COMMISSIONER WALLS: To what extent do your rank  
26 and file members have any knowledge of the matters that  
27 will be up for discussion by your delegates at your  
28 annual convention? As I understand it, you have a delegate  
29 convention, delegates representing your members in various  
30 districts. Now, to what extent does the rank and file



A7 1 member have any say, or any knowledge of the matters that  
2 are up for decision by the delegates?

3 MR. MALM: Well, first of all, following the  
4 annual meeting, when the operations of the previous year  
5 are fully gone into - incidentally, the annual meeting runs  
6 from eight to ten days, and at that time the delegates  
7 are fully informed of all phases of the operation during  
8 the past year, and following that annual meeting county  
2 9 meetings are held by the delegates in their various 70  
10 sub-districts in the Province of Alberta.

11 The province is divided, first of all, into  
12 seven major districts and each sub-district is divided  
13 into ten sub-districts. Each district elects a director,  
14 being seven in number, and each of these sub-districts  
15 elects a delegate and this delegate is elected by the  
16 members in his particular sub-district, and his responsi-  
17 bility, following the annual meeting, is to hold meetings  
18 at various shipping points to explain the operation of the  
19 Wheat Pool during the past year and the policies that have  
20 been formulated for the coming year. That is one method  
21 of informing the members at large.

22 Sixty-three of our delegates also have Advisory  
23 Committees made up of a number of the members in his sub-  
24 district that he meets with, in addition, twice a year  
25 where they discuss Pool matters, matters relating to the  
26 operation of the Alberta Wheat Pool.

27 COMMISSIONER WALLS: Does the Advisory Committee  
28 give advice to the delegate before he attends the conven-  
29 tion?

30 MR. MALM: Yes, they do. They have one meeting



A8 1 in the Fall, shortly before the annual meeting, and one  
2 later in the winter before the Spring work starts, as a  
3 rule.

4 COMMISSIONER WALLS: Thank you.

5 THE CHAIRMAN: I see that the attention of the  
6 Board was drawn to the matter of taxation at the 1960  
7 annual meeting when instructions were given resulting in  
8 the preparation of this submission, as you say. Would  
9 this be an undertaking by the Board or would you have a  
10 special Taxation Committee? How do you proceed to do this  
11 sort of thing in such an organization? Your officers,  
12 I suppose, take quite a bit of responsibility?

13 MR. MALM: Yes. The delegates, following the  
14 notice of the appointment of this Commission to investi-  
15 gate taxation, discussed this matter at some length at  
16 the annual meeting and inasmuch as there have been some  
17 statements made by various people beforehand, they thought  
18 that it was certainly very urgent that we place our case  
19 before the Commission and the people of Canada and the  
20 Board were instructed by the delegate body to proceed to  
21 make this submission to the Commission and we have  
22 attempted to carry this out to the best of our ability.

23 THE CHAIRMAN: Thank you. I have turned to page  
24 4, paragraph 8, where you say:

25 "The patrons are stimulated by the profit  
26 motive, but the co-operative organization  
27 itself is not."

28 The co-operative organization, you argue, is an  
29 extension of the patrons, in fact, and I would have  
30 thought that by virtue of the fact that they are doing



A9

1 their best for the members, who are patrons, I believe,  
2 that they would have been operating according to the  
3 profit motive to obtain the best results they can for  
4 their patrons. Is that not so?

5 MR. MALM: Well, I would like to state it in a  
6 little different way than that. Now, I don't know if it  
7 is necessary to go back into grain handling in the early  
8 stages; you probably are familiar with that.

9 THE CHAIRMAN: Not very. I have read the brief  
10 and what you have said about it there.

11 MR. MALM: Well, grain farming in Western  
12 Canada went through a stage when it was a terrific gamble  
13 on the part of the farmer when he should sell and when he  
14 should not sell and quite often, or more often than not,  
15 he was not able to gauge the market right and he got a  
16 rather rough deal so certainly in the period before the  
17 first World War the farmer made efforts to correct some  
18 of the abuses, and one of the first things they were able  
19 to do was to finally obtain the Canada Grain Act, and  
20 further to that, in forming co-operative elevator com-  
21 panies.

22 Even with that, they were not completely satis-  
23 fied that they solved their problem, so during the war,  
24 when food was probably the most essential thing, the  
25 Government at that time set up a Board of Grain Supervisors  
26 in 1918 to handle the 1918 crop and they paid the farmer  
27 a set price for his wheat at that time, but strangely  
28 enough this Board was not set up to enhance the price but  
29 rather to keep the price from going too high because it  
30 seemed at that time that speculators were trying to corner





A10 1 all the wheat in the world and hold up the starving people  
2 of Europe.

3 Well, the following year the first Canadian  
4 Wheat Board was set up to handle the 1919 crop and while  
5 the Board of Grain Supervisors in 1918 had bought the  
6 grain outright, or the Wheat Board at that time paid an  
7 initial payment, they issued participation certificates.

8 Now, I was quite a young fellow at that time  
9 but I can still remember my father's neighbours discussing  
10 these participation certificates and they said, "Well,  
11 we wonder if they are worth anything." In fact, I heard  
12 afterwards that some of them threw them away. They didn't  
13 think they were worth anything but when the final closing  
14 out of that Wheat Board came about, they found out they  
15 were worth a lot of money. They got a wonderful final  
16 payment.

17 Well, when the war was finished, or at the end  
18 of the 1919 crop, the Government said, "We can no longer  
19 stay in the wheat business. We think this should be in  
20 private hands," but the experience that the western  
21 farmers had had with the Wheat Board, which seemed to them  
22 that it was going to stabilize the prices, and was a very  
23 worthwhile venture, the farmers in Western Canada put all  
24 the pressure they knew how to put on the Government to  
25 try and retain the Wheat Board. They were not successful.  
26 Following that period prices fell very drastically and  
27 many farmers were practically ruined in the fall of these  
28 wheat prices.

29 They continued to press on the Government for a  
30 Wheat Board but were not successful, so in 1923 they



All 1 decided to try and solve the problem themselves by setting  
2 up this Alberta Wheat Pool and the strange part about it  
3 was that when the farmers were debating whether they  
4 should set up a wheat pool, the businessmen in the cities  
5 and towns were one hundred percent behind them; practically  
6 one hundred percent behind them. The City of Calgary  
7 gave them every assistance possible. They realized that  
8 the economic position of the man on the land was very,  
9 very important to their own livelihood so the signing-up  
10 of the first contract, from the standpoint of opposition  
11 by anyone, just wasn't there.

12 They got support from practically everyone, so  
13 in a period of less than three weeks they signed up  
14 practically 50% of the farmers in Alberta to the pooling  
15 principle and that was the beginning of the Alberta Wheat  
16 Pool and, as is stated here, for a period of from 1928  
17 to 1929, when they had the financial crash, they could  
18 claim some success in stabilizing the prices to the  
19 producer, and certainly the people that set that organiza-  
20 tion up at that time had no other idea than to improve  
21 their own economic status, and did not look to the organiza-  
22 tion, as such, to make profits; the earnings of this  
23 organization would all go back to the original producer.  
24 They did not visualize at that time that the organization  
25 that was set up as such would make earnings for themselves  
26 but for the members of that organization.

27  
28  
29  
30



FB/dpw 1

COMMISSIONER GRANT: Could we ask Mr. Malm

2 just to continue with the story and tell us when the  
3 Wheat Board came back into operation and its relation now  
4 to the Pool?

5 MR. MALM: Well, yes, I would be pleased to do  
6 that. When the financial crash came in 1929 the Wheat  
7 Pool, the three Wheat Pools, which were then the Canadian  
8 co-operative wheat producers, found themselves in terrible  
9 difficulties; in fact, many people considered them bank-  
10 rupt at the time and, no doubt, had it not been for the  
11 three Prairie Provinces backing the bonds they probably  
12 would have been forced into bankruptcy. They were put into  
13 the position where they were no longer able to handle  
14 wheat on a pooling basis. For one thing, prices of wheat  
15 fell to the lowest price in history and there seemed to  
16 have been built up some spirit of resentment against the  
17 pools in some quarters and it wasn't able to carry on.

18 The members of the pool and the people that  
19 were behind the three pools were confident that a better  
20 method of handling the western farmers' grain must be  
21 evolved than the open market system where it was at the  
22 whim of speculators and probably other countries, and  
23 therefore, they pressed the Federal Government for legis-  
24 lation to set up the Wheat Board to handle the western  
25 farmers' wheat.

26 In 1935, the farmers succeeded in getting the  
27 Government to pass the Canadian Wheat Board Act. However,  
28 the Canadian Board didn't take over the handling of all  
29 wheat until 1943, during the war. Since that time up to  
30 the present the Canadian Wheat Board has been the sole





B2 1 handler of wheat, and in the last number of years, about  
2 10 now, I guess, they have also been the sole handler of  
3 oats and barley.

4 COMMISSIONER GRANT: That as selling agent?

5 MR. MALM: Selling agent for the western  
6 provinces.

7 COMMISSIONER GRANT: How do they take the grain  
8 from the pools - is that on an allotment basis?

9 MR. MALM: All elevators are agents for the  
10 Canadian Wheat Board and accept delivery from farmers.  
11 In our case, we have deliveries from our members and the  
12 Canadian Wheat Board allocates the shipping of the various  
13 elevators according to the business that they generate in  
14 the country. We now act as handling agents only for the  
15 Canadian Wheat Board.

16 COMMISSIONER WAT 3: Does the Canadian Wheat  
17 Board physically own the wheat from the time it is  
18 delivered to the country elevator?

19 MR. MALM: I will try and answer in this way:  
20 as long as the wheat is in the various country elevators  
21 it is financed by the various elevator operators. Money  
22 is borrowed from the banks and the other people that have  
23 money to lend, and it is actually financed by the handlers  
24 up until the time that it passes over into the terminals  
25 when the Wheat Board actually takes possession of that  
26 wheat, but that wheat is owned, in actuality, by the Wheat  
27 Board when it is delivered to the elevator. No one else  
28 can take ownership of it.

29 THE CHAIRMAN: Your gross income is mainly  
30 commissions for your services as agent, is it?





B3 1 MR. MALM: Yes, that is correct.

2 COMMISSIONER GRANT: No grain is delivered to  
3 the elevator except at the request of the elevator  
4 operator?

5 MR. MALM: I beg your pardon?

6 COMMISSIONER GRANT: No grain comes off the  
7 farm and into the elevator unless the farmer is requested  
8 to put it there by the elevator operator, to deliver it,  
9 in other words? No farmer has the right to come to the  
10 elevator and have the elevator take his wheat?

11 MR. MALM: Well, if the public elevator has  
12 space and the farmer hauls in a load of grain that public  
13 elevator must accept his grain.

14 COMMISSIONER GRANT: All he needs is to inquire  
15 whether space is available?

16 MR. MALM: Yes. He has the right to deliver  
17 it.

18 COMMISSIONER GRANT: When it goes in the elevator  
19 does he then receive part-payment?

20 MR. MALM: Yes. At the beginning of the crop  
21 year, and in some years, sometimes previous to that, the  
22 Government, on the advice of the Canadian Wheat Board,  
23 set the initial payment for wheat and oats and barley,  
24 and that initial payment is what the farmer receives when  
25 he delivers his grain to the elevator. He then receives  
26 interim and final payments when the grain is finally sold  
27 to the consumer; exported.

28 COMMISSIONER GRANT: Recently he has been  
29 allowed the payment on account on the grain in his bins  
30 on his farm, but that has been due to special circumstances?



B4 1 MR. MALM: Yes. The reason for that is because  
2 in the Fall of the year quite often country elevators are  
3 congested, and that is the way they are right at the  
4 present time and if the farmer makes an affidavit to the  
5 elevator agent that he has certain bushels to deliver when  
6 delivery privileges are made available he can get an  
7 advance on that grain on his farm and that is paid back -  
8 he pays that back as he delivers his grain; quotas are  
9 increased.

10 COMMISSIONER GRANT: This procedure which you  
11 have been outlining is applicable to the industry whether  
12 it is elevators owned by a co-operative or whether it is  
13 owned by a private company?

14 MR. MALM: That is correct, yes.

15 THE CHAIRMAN: This discussion came about, Mr.  
16 Malm, because I asked a question as to whether the  
17 co-operative was stimulated by the profit motive and you  
18 replied that they didn't come about in that way; they  
19 came about to achieve price stabilization rather than  
20 higher prices. I still don't think that says the present  
21 operations are not to achieve a profit and I think it  
22 will come about, if they are interested in the profits of  
23 their members, they are interested in profit, or am I  
24 beating a matter which has no substance?

25 MR. MALM: Well, I certainly will agree that  
26 the co-operative as such is looking for profits. In our  
27 handling agreement with the Canadian Wheat Board, which is  
28 entered into by us, other elevator operators - all elevator  
29 operators have that contract to handle grain for the  
30 Canadian Wheat Board. A maximum handling charge is set



B5 1 plus the storage, and, also, of course, we are reimbursed  
2 for the interest that is paid on the money that is borrowed  
3 to carry this grain and, certainly, each of the companies  
4 try to arrive at a figure that is necessary to handle this  
5 grain, making allowance for the possibility of not having  
6 a loss on the operation. Therefore, at the end of the  
7 season they hope to have something left over which private  
8 companies refer to as profit, but in the case of the  
9 co-operative, I would say that the member is the one that  
10 is interested in having his product handled as economically  
11 as it is possible to do, and therefore any savings that  
12 are made in these charges belong to him, and no one else,  
13 because the co-operative has no share capital to take care  
14 of, as such, and, therefore, it is an increase in his price.

15 THE CHAIRMAN: I accept the position. I see you  
16 are drawing a distinction between the member and the  
17 co-operative and as such you are saying that the member is  
18 the one interested in profit and the co-operative provides  
19 the service. The service improves the profit, but the  
20 co-operative is doing its best to provide the best service  
21 rather than make the best return. I notice over the page  
22 that the co-operative is:

23 "motivated by a profit stimulus in the  
24 case of marketing, or by a savings  
25 stimulus in the case of merchandising."

26 That is drawing a distinction between a marketing  
27 co-operative and a consumer co-operative. You are speaking  
28 on behalf of both, I take it? From what I read later, I  
29 would say you are quite prepared to put forward a case for  
30 both.



B6

1 MR. MALM: Broadly speaking, yes.

2 COMMISSIONER GRANT: Incidentally, on page 5,  
3 it should read "considerations of economic gain."

4 THE CHAIRMAN: I made the change.

5 MR. MALM: Yes, I noticed that myself in the  
6 printing.

7 COMMISSIONER WALLS: In the consumer goods  
8 that your Pool handles and sells to the farmer, do you  
9 sell anything that is not a deductible expense from the  
10 farmer's income tax?

11 MR. MALM: No, I don't think we do. No, I  
12 don't think we so far have handled anything that does not  
13 go into their production.

14 COMMISSIONER WALLS: And becomes an expense  
15 item.

16 MR. MALM: Yes

17 COMMISSIONER WALLS: Paragraph 14 on page 6,  
18 you say:

19 "It is submitted that the Commission should  
20 give the utmost consideration to the true  
21 legal position of co-operatives."

22 I wonder if, perhaps, Mr. Allen might expand on  
23 just what you have in mind there. Is it the fact that  
24 there should be a separate legislation for co-operatives  
25 as opposed to those covering corporations?

26 MR. ALLEN: I think they use the term "true  
27 legal position" referring really to the true legal posi-  
28 tion from the standpoint of the operations of the co-opera-  
29 tives as distinct from the operations of the ordinary cor-  
30 porations; what you would call the ordinary business





B7 1 corporations. We have always tried to emphasize that  
2 the co-operative does not have for its objective profit,  
3 which, right at the outset, is the difference between it  
4 and the ordinary business enterprise because the ordinary  
5 business enterprise must have a profit motive, the desire  
6 to make profits to distribute to its owners. We like to  
7 emphasize - there has been a lot of argument, as you know.  
8 When you get down to the legal position of the co-operative,  
9 I suppose we are bound by the legal decisions that have  
10 been made, some of which are cited in this brief.

2 11 We still contend that it has never been fully  
12 decided that a co-operative is not strictly a non-profit  
13 organization which should not be considered to have income  
14 at all. The result of the MacDougall Commission, as you  
15 know, was to find co-operatives did earn income, and the  
16 result was the enactment of Section 75 which set how that  
17 income is going to be taxed and to what extent this income  
18 is going to be exempt. We still contend that from a  
19 strictly legal position and having regard to the obliga-  
20 tions that the co-operative owes to its members it does  
21 not have income.

22 THE CHAIRMAN: With regard to a producer co-opera-  
23 tive, of course, whether or not it has income, whatever it  
24 has left over is passed over to its members where, in fact,  
25 it is taxed.

26 MR. ALLEN: The marketing co-op, everything that  
27 goes back to the members is taxed, whether it goes in the  
28 form of cash or whether it goes in the form of a dividend  
29 payable in reserve, fully taxed. There is no dividend  
30 tax credit.



B8 1 THE CHAIRMAN: I have nothing more till I get to

2 9. Have you anything further?

3 COMMISSIONER GRANT: At some time or another -  
4 and I think, perhaps, it could come in here - I would like  
5 to have you explain just what constitutes "equity capital,"  
6 "members' capital" and "members' equity" - those three  
7 terms are used in your brief. Do they all mean the same  
8 thing or are they different, and, if so, what is the  
9 meaning of each?

10 MR. ALLEN: I don't know it is meaningful. I  
11 would say there is no great distinction between any of  
12 them. It is probably capital of the Wheat Pool as an  
13 accumulated amount of its reserves that exists from time  
14 to time. If you want to make an analogy between that  
15 and share capital in the ordinary institution, it is  
16 what the member has left in the Pool. That is it capital.

17 The member's equity is his interest in this  
18 reserve, whatever it may be. He doesn't have shares, but  
19 he has an interest in the reserves. I don't think there  
20 is really much of a distinction.

21 COMMISSIONER GRANT: I see. "Saving," which is  
22 a term co-operatives use; what they have left after  
23 paying all costs is divided on the basis of the members'  
24 capital. There is a return to the member on his capital?

25 MR. ALLEN: No, he never gets it, sir. At  
26 some time when he retires, goes out of his business, he  
27 gets his capital, but he never gets returns on it.

28 COMMISSIONER GRANT: By returns, Mr. Allen, I  
29 mean is he credited with any interest?

30 MR. ALLEN: No, he is not, sir.



B9 1 COMMISSIONER GRANT: That is the member?

2 MR. ALLEN: No. That is a matter on which some  
3 criticism has been raised from time to time, but a member  
4 does not - I am correct? A member is not credited with  
5 any interest of reserves. He leaves his reserves in until  
6 he retires.

7 THE CHAIRMAN: Might I ask if the \$5 is subject  
8 to interest? I take it it is.

9 MR. ALLEN: No, if he loses his \$5 reserve  
10 interest he is no longer a member.

11 COMMISSIONER GRANT: His interest in the reserve,  
12 and the reserve is the amount that remains after paying  
13 patronage dividends - his interest in the reserve depends  
14 not on his \$5, not on his share interest?

15 MR. ALLEN: He has no share.

16 COMMISSIONER GRANT: But on the amount of produce  
17 that he owns, that has passed through the hands of the  
18 co-operative in that year.

19 MR. ALLEN: That is correct. Technically, that  
20 is right. He has some interest in reserve through his  
21 \$5 membership. That \$5 purchases him some reserve; \$5  
22 worth. While he could have \$1,200 or \$1,300 in reserve,  
23 he would have \$1,305, because he has paid his \$5.

24 COMMISSIONER GRANT: The only time he has the  
25 right to that reserve which stands at credit in the  
26 accounts of the co-operative in his name is on retirement?

27 MR. ALLEN: There are a number of circumstances  
28 outlined in the Act, sir, which define when he may be paid  
29 it. For instance, if he retires from farming altogether,  
30 if he reaches a certain age - when the delegates pass



B10 1 their resolutions authorizing the decisions on reserve,  
2 that it should be in certain categories, and say their  
3 members who have attained the age of 70, you get so much  
4 and if a member retires you get so much - they work it out  
5 on a percentage of the reserves that are outstanding.  
6 The man doesn't necessarily have to be completely out of  
7 farming before his reserves start being purchased. The  
8 reserve must always be a revolving fund otherwise you  
9 would run out of qualifications for membership because the  
10 capital in the Pool is limited by the Act and you have  
11 this continually revolving fund of purchasing reserves  
12 from members, and then you distribute them from time to  
13 time, otherwise you wouldn't have that reserve to distri-  
14 bute, by way of patronage dividend.

15 COMMISSIONER GRANT: Would you turn to Appendix  
16 D, Table I?

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ANGUS. STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

MR/dpw 1 MR. ALLEN: Appendix E?

2 COMMISSIONER GRANT: Appendix D. We have  
3 patronage dividends - reserve purchases. Patronage divi-  
4 dend is divided into two classes: cash and reserves.  
5 In 1961/62 the amount was very substantial, amounting to  
6 \$1,465,000 in cash. Was that paid in actual cash?

7 MR. ALLEN: Yes, in the sense it was really.  
8 What you have here is the earnings of the Pool,  
9 they have so much money on hand and it comes to the  
10 annual meeting, the delegates decide how the earnings  
11 should be distributed.

12 Now, you have got to maintain a reserve. You  
13 have got to keep something in hand there so what they do,  
14 they authorize first the Pool to purchase a certain amount,  
15 maybe \$2 million, \$1 million or a million-and-a-half  
16 dollars, whatever it may be, of reserves from the cate-  
17 gories of members I described a little while ago. Having  
18 got that, they then authorize the distribution of those  
19 reserves to their members as patronage dividends, so the  
20 cash has gone out on one side ---

21 COMMISSIONER GRANT: May I interrupt you here?  
22 They have thereby reduced the reserve by that amount that  
23 they have allotted ---

24 MR. ALLEN: They reduced their reserve but---

25 COMMISSIONER GRANT: They have reduced the  
26 reserve by the amount of the cash dividend?

27 MR. ALLEN: But then it goes right out again.  
28 They buy a reserve over here - \$1,500,000 - and then they  
29 distribute it. That is the same reserve they distribute  
30 to the patrons of that year in proportion to patronage.



C2 1                    COMMISSIONER GRANT: By way of a patronage divi-  
2    dend?

3                    MR. ALLEN: That is correct; and that patronage  
4    dividend has a liability attached to it because those  
5    reserves are not paid. The member has not paid for this  
6    reserve. They don't get anything out of the Wheat Pool  
7    if they haven't paid for it by putting grain in, or having  
8    deductions made, and so on. They then declare a cash  
9    dividend, a cash patronage dividend, and out of that cash  
10   patronage dividend they retire the amount on reserve.

11                  Now, that means that the member who got reserves  
12   holds it clear title and the balance of the cash dividend  
13   he gets in his own hands as cash, but he pays tax on the  
14   whole works.

15                  Now, those Acts are vague - Section 75 of the  
16   Income Tax Act is just about as hard as anything in the  
17   Act to read, and that is saying a great deal. That is the  
18   way it works: the money goes out on both sides. You have  
19   got to buy the reserves in the first place. The money has  
20   gone out for that purpose and then you issue those reserves.  
21   Then you issue a cash patronage dividend which cleans up  
22   the amount you have created as a liability for the member  
23   on the reserve distributed, so you have got two items:  
24   cash that has really gone out, the cash paid out in cash  
25   patronage dividends and the cash used to purchase reserves.  
26   Does that clarify it? I realize this is a little like  
27   Alice in Wonderland, but that is the way it is.

28                  COMMISSIONER GRANT: It is on the record and  
29   it will be there for further study.

30                  COMMISSIONER MILNE: Possibly Mr. Malm or Mr.



C31 Allen might answer this about the membership. You outline  
2 their qualifications when a member may retire. May a  
3 member retire voluntarily before retirement age, or  
4 approaching retirement age?

5 MR. ALLEN: And receive his reserve?

6 COMMISSIONER MILNE: Yes.

7 MR. ALLEN: No, he cannot. The only basis on  
8 which he can receive his interest in the reserve is as a  
9 result of a resolution of the delegates determining the  
10 reserve that will be purchased and out of the categories  
11 that will be purchased, and the mere fact he wants  
12 to get out of the thing, and wants to get his reserve  
13 back won't help him. He has got to come in the categories  
14 that they decide to purchase.

15 COMMISSIONER WALLS: If you had a man that was  
16 sick wouldn't you have a resolution before your annual  
17 meeting that might permit that man to withdraw his reserve?

18 MR. ALLEN: I have never seen one.

19 MR. MALM: There have been, but not of recent  
20 years. There were some considerations taken in years past  
21 for reasons of that kind but they have been very few.

22 Now, I want to amplify a point Mr. Allen said,  
23 a little bit, to make it clear. That is, there is a way  
24 for a man to retire as a member from the Alberta Wheat  
25 Pool other than age, and that is if he sells his land and  
26 no longer has land capable of producing grain in the  
27 Province of Alberta. Then he may apply to have his  
28 reserve paid to him.

29 MR. ALLEN: Yes, that is correct. These cate-  
30 gories are all determined. It's in Section 40 of the Act.



C4 1 THE CHAIRMAN: What page is that on?

2 MR. ALLEN: It's Section 40 of the Act and it is  
3 on page 40 in this little book of bylaws which I gave you  
4 and you will notice - when authorized by resolution of  
5 the delegates, and these (a) to (i) are the categories  
6 I was speaking about of members from whom they can make  
7 purchases.

8 THE CHAIRMAN: Page 9, the practice of distri-  
9 buting dividends to customers has spread from the Wheat  
10 Pool to private companies to the extent that this prac-  
11 tice has become quite general. That surprises me a little  
12 bit. I did not realize that patronage dividends were  
13 being paid out by other than co-operatives to any extent.  
14 Is that so?

15 MR. MALM: Well, yes, some of the elevator grain  
16 companies have paid some tronage dividends. They have  
17 been very small, I think. It's purely from a competitive  
18 angle, but they have paid some small patronage dividends.

19 THE CHAIRMAN: Would there be others doing it  
20 not in the business of elevators?

21 MR. MALM: Well, not to my knowledge. I am  
22 afraid I could not answer that question.

23 DR. GAINER: I may not be able to add much here,  
24 Mr. Chairman. I believe it is correct to say that in  
25 many industries where a co-operative movement has achieved  
26 some status in the industry they have taken action of this  
27 sort. I think that the insurance, the conventional  
28 insurance companies, I think, make premium rebates,  
29 whether mutual or not.

30 MR. ALLEN: Section 75 of the Income Tax Act,



051 of course, is available to anybody.

2 THE CHAIRMAN: I realize that. I did not think  
3 it was being used except by co-operatives.

4 COMMISSIONER GRANT: With reference to that same  
5 paragraph, the last sentence, where you say that after the  
6 Pool entered the fertilizer business that it resulted in  
7 substantially lower prices; has that been maintained?  
8 Are these lower prices just something that have happened  
9 over a limited period of time and then have they reverted  
10 to their former price?

11 MR. MALM: That has been maintained since we  
12 entered.

13 COMMISSIONER GRANT: In other words, fertilizer  
14 is considerably cheaper now than it was four years ago?

15 MR. MALM: It seems that way. It is, yes.  
16 When we entered the fertilizer field, we did not cut the  
17 price. Somehow there was price cutting and all we could  
18 do was follow that price, and that is still effective.

19 COMMISSIONER WALLS: On page 11, it's an inter-  
20 pretation of phraseology that I think should be clarified;  
21 you say: "...clearly indicates that such organizations  
22 suit the small producer or consumer to the best advantage."

23 Now, by that, you don't mean that there is a  
24 restricted percentage of large grain growers within the  
25 co-operative? Does it not suit large producers just as  
26 much as small producers?

27 MR. MALM: Well, I will try to answer it in  
28 this way: that in times past when the economy is bouncing,  
29 it certainly would be much harder to form a co-operative.  
30 They have generally come about in times of economic stress



C6 1 when the producers - that is speaking as a farmer - have  
2 found themselves rather pushed to the wall and that is the  
3 time when they have taken action as a co-operative and  
4 certainly the really large producer is probably more able,  
5 because of his wider contacts, and probably being better  
6 financed, to fight his own battles, and the smaller  
7 producer, having a smaller portion of his product to  
8 market, is not in as favourable a position so from  
9 that standpoint it is probably the smaller producer that  
10 has more to gain momentarily than, in some cases, a larger  
11 producer.

12 Now, certainly, in the case of the Alberta Wheat  
13 Pool we find that some of our big producers are the  
14 staunchest supporters of the Alberta Wheat Pool, whether  
15 he is a true co-operator or whether it's because he can  
16 make a little more money that way is sometimes awfully  
17 hard to distinguish, but at the outset I would say that  
18 the smaller producer is probably the one that is pushed  
19 the hardest and will benefit the most.

20 THE At the end of that section you say:  
CHAIRMAN:

21 "It is therefore submitted that the  
22 Commission should endeavour to consider  
23 the authentic economic, legal, and social  
24 differences between co-operatives and  
25 profit concerns..."

26 I would doubt if we need to explore that at  
27 this point. You go on further to develop that in what  
28 you have later on in your brief, I think. It seems to go  
29 to the very basis of what we are discussing. I must say  
30 I was delighted with your comparison with the taxation of



C71 co-operatives in other countries; the United States,  
2 2 Britain and Sweden, and quite surprised that they seem  
3 to come out so relatively close. I was not aware of that.  
4 They all seem to attack their problem in somewhat the  
5 same way, although you conclude that there is a difference  
6 in them.

7 COMMISSIONER WALLS: In your comparison of  
8 co-operatives in other countries, you mention the British  
9 Friendly Societies of the 19th Century. Is it not a  
10 fact that Canadian organizations registered under the  
11 Societies Act or any similar provincial legislation may go  
12 into trade on behalf of its members as a sideline to its  
13 regular endeavours, and, of course, these are tax-free  
14 organizations, and they neither register as a co-operative  
15 or corporation and their profits would be non-taxable in the  
16 organization's hands and in the members' hands?

17 MR. ALLEN: From a legal standpoint, I don't  
18 think that is right in Alberta. If you are incorporated  
19 under the Societies Act you have got to be incorporated  
20 for a benevolent or social or some type of activity of  
21 that sort. It is strictly not a commercial enterprise.  
22 If you are going to go into co-operative operation, or  
23 anything like that, you have got to be under the Co-operative  
24 Marketing Association, or the Co-operative Association Act.

25 I do not think it would be possible for a  
26 society incorporated under the Societies Act of Alberta  
27 to engage in any activity involving gain.

28 COMMISSIONER WALLS: There may be some difference in  
29 various provincial legislation.

30 MR. ALLEN: I don't want to be too dogmatic



C8 1 about this, but that is my recollection, and, of course,  
2 you can also incorporate companies under the Companies  
3 Act which are absolutely prohibited from earning or  
4 distributing profits to the members and sometimes you can  
5 qualify them as exempt from taxation and sometimes you  
6 can't, depending on their objectives.

7 THE CHAIRMAN: I have got a question with  
8 regard to the comparison of the different countries on  
9 page 29, paragraph 2. That is discussing United States  
10 taxation of co-operatives, and I think I detect a difference  
11 in the matter of principle, but I am not very sure, so I  
12 think I would like to know if I do.

13 It says here that members of co-operatives are  
14 taxed on patronage dividends received from marketing  
15 co-operatives and from consumer co-operatives if the  
16 items bought therefrom are deductible as expenses.

17 Now, in Canada I don't think that would be the  
18 case. Would that be so? Would the member of a consumer  
19 co-operative be taxed on patronage dividends to the extent  
20 that the items which he bought were deductible as expenses  
21 in his business?

22 MR. ALLEN: He would have two ways of doing it  
23 there. He has got expenses; essentially I think you would  
24 arrive at almost the same result. Your expense is so much  
25 and that expense is reduced by the dividend that you  
26 receive, so I think you arrive at much the same result.

27 THE CHAIRMAN: You mean in the States or Canada  
28 or both?

29 MR. ALLEN: I wouldn't think that it makes such  
30 a terrific difference in either place.





09 1 DR. GAINER: My interpretation would be it's  
2 the same in both countries, sir, in the result.

3 THE CHAIRMAN: Well, I was assuming that divi-  
4 dends from consumer co-operatives were exempt from taxa-  
5 tion in the hands of members in Canada; is that not so?

6 DR. GAINER: If you define consumer co-operatives  
7 as those which sell goods and services for personal use,  
8 in that case such dividends are non-taxable.

9 THE CHAIRMAN: The point which I am seeking  
10 really is that those co-operatives would, I assume, sell  
11 goods to both. They sell goods to people in business  
12 and also to people who are not in business, so in some  
13 cases the goods would be deductible, and in some cases  
14 they would not be deductible?

15 DR. GAINER: That is right, sir.

16 THE CHAIRMAN: I was enquiring whether in Canada  
17 patronage dividends would follow the goods? Would they  
18 be taxable in relation to goods which were deductible and  
19 would they not be taxable in relation to goods which were  
20 not deductible? I do not think that is the case in  
21 Canada. It seems to me, from the wording here, it is the  
22 case in the States.

23 COMMISSIONER GRANT: In any submissions that  
24 have been made to us to date, we have been led to believe  
25 that patronage dividends in the consumer co-operatives  
26 are not subject to taxes, whereas, your brief, I think,  
27 clearly sets forth that in the United States such is the  
28 case. To be specific, if a farmer buys a combine from a  
29 co-op, then that represents a substantial sum of money,  
30 and when he receives his patronage dividend under the United



C10 1 States system, apparently, according to the brief, the  
2 patronage dividend would be distinguished between what  
3 was supplied as consumer goods and what was supplied as  
4 goods used in the production on the farm for earning  
5 income, and the latter would be subject to tax.

6 Now, if the same system applies in Canada,  
7 then co-operatives in making their return on the patronage  
8 dividend would be bound to differentiate between those  
9 two types of purchase.

10 DR. GAINER: That is right, sir. If they are,  
11 in fact, dealing with lines of goods that end up sold  
12 either to consumers or to businesses.

13 COMMISSIONER GRANT: You are not speaking for  
14 the consumer co-op at the moment.

15 DR. GAINER: It was my impression that part of  
16 merchandising co-operativ : - they would not call it a  
17 consumer co-op - whether they are selling consumer goods  
18 and services and paying a patronage dividend on this,  
19 that this is non-taxable, but I was under the impression,  
20 even in Canada, that if the same co-op or another one  
21 sells feeds and supplies, and items of this sort, which  
22 I would define as merchandising co-op, still perhaps not  
23 a consumer, that these patronage dividends are deductible.

24 THE CHAIRMAN: I would assume so, but I was  
25 concerned that they were dealing with both.

26 MR. ALLEN: You have the definition in Section  
27 75.

28  
29  
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FB/dpw

COMMISSIONER WALLS: I think what they are

trying to arrive at is whether the regular consumer co-op is also in the business of selling farm supplies that are deductible expenses - what mechanics does the co-operative use to draw a line between the taxable item and the non-taxable item?

THE CHAIRMAN: That is right; and how does he divide his dividends?

MR. MALM: As far as I am concerned, I don't think I would be prepared to explain the mechanics of how they do that. Are you familiar with the mechanics of how they would operate?

MR. MADILL: No, I am not.

COMMISSIONER GRANT: Would you be prepared to say it is being done?

MR. MALM: I can say it is being done. I know in my own case it is being done, but I am not too positive as to the mechanics.

THE CHAIRMAN: I am not so much concerned about mechanics.

MR. MALM: It is being done.

THE CHAIRMAN: It is done in the case of the consumer co-op, selling taxable and non-taxable goods.

MR. ALLEN: Sub-section 6 of Section 75 helps to clarify this because it only requires the inclusion in the taxpayers' income of dividends received, patronage dividends received, other than the allocation in respect of consumer goods and services. In other words, if it is not a deductible item you don't include it and if it is repayment on cost of goods it is put in; money in the pot.



D21 THE CHAIRMAN: I recognize the principle. I  
2 have seen it in your brief, the sentence you refer to.  
3 I was wondering if it was accomplished, and, if so, how  
4 it was accomplished. It seemed to me it might be a diffi-  
5 cult thing to do.

6 DR. GAINER: What you are talking about is  
7 whether this co-operative makes a difference between divi-  
8 dends paid or whether it is just up to the taxpayer to  
9 make this distinction himself.

10 THE CHAIRMAN: That is right.

11 DR. GAINER: I don't know the answer to this  
12 myself. Mr. Malm's answer as to whether the co-op does  
13 make the distinction to the taxpayer ---

14 THE CHAIRMAN: As I say I am very puzzled by it  
15 because the same man might at one time buy string for the  
16 household and another time buy string for the operation.  
17 How does the co-operative know what he does with the  
18 product? I couldn't begin to understand. I suppose you  
19 could carry that analogy on further.

20 MR. ALLEN: If it is a capital item, a piece of  
21 machinery, you can get it all right because it is a  
22 capital item and is depreciated. If it is a straight  
23 item like fertilizer or something of that type ---

24 THE CHAIRMAN: I think fertilizer is pretty  
25 obvious. A lot of them are not.

26 MR. ALLEN: We know more about fertilizer than  
27 anything else because it is about the only thing we handle  
28 on a consumer basis.

29 THE CHAIRMAN: You are giving Mr. Walls an  
30 opportunity to tell an entertaining story about fertilizer.





D3 1 Let us go on to your question, page 35.

2 COMMISSIONER WALLS: You are dealing with the  
3 fact that co-operatives are practically 100% Canadian-  
4 owned and therefore it is one industry that prevents  
5 control of Canadian industry by foreign capital. When  
6 you make this statement on page 37:

7 "It has been charged that United States-  
8 based firms preserve export markets for  
9 themselves."

10 By this do you refer to  
11 parent companies in the United States who perhaps force  
12 their Canadian subsidiaries to import their product  
13 instead of purchasing Canadian products?

14 MR. WAIN: I think it goes a little bit further  
15 than that. It infers also that in some cases we think  
16 that American firms with subsidiaries in Canada - if  
17 foreign markets are available that quite often it happens  
18 that the parent company gets the benefit of the market  
19 rather than the subsidiary in, say, Canada. I think that  
20 is one of the things that is inferred there.

21 DR. GAINER: I think the main reference is to  
22 the suggestions monitored in the Gordon Commission report,  
23 in the case where a subsidiary is established in Canada  
24 of a U.S. parent company, and it may well be for convenience  
25 and other reasons, that the Canadian manufacturer is not  
26 given an opportunity to ship in, let us say, European  
27 markets. Instead the U.S. parent operator may take the  
28 export company on his own or may deal through the parent  
29 company in those markets. There is some question as to  
30 whether or not subsidiaries in Canada or elsewhere get an



D4 1 equal chance at overseas markets.

2 THE CHAIRMAN: I see; anything else?

3 COMMISSIONER GRANT: Well, I am satisfied as to  
4 that.

5 THE CHAIRMAN: I would like to leap to 52.

6 COMMISSIONER GRANT: Before you do, I would like  
7 to ask: in Great Britain Co-operatives dividends  
8 are paid to the members on their shares. Are  
9 co-operatives constituted differently in Great Britain  
10 than they are here?

11 MR. ALLEN: I have to look this up.

12 COMMISSIONER GRANT: Page 31 refers to distribu-  
13 tion to the members of their shares of the society.

14 MR. ALLEN: We also talk about companies and  
15 societies.

16 COMMISSIONER GRANT: Here it is on the basis of  
17 their patronage.

18 MR. ALLEN: No; you see, if you look at the  
19 quotation from the Finance Act at page 30 - allow them to  
20 deduct as expenses - they allow a company or society or  
21 whoever it may be "any sums which represent a discount,  
22 rebate, dividend or bonus granted by the company or  
23 society to members or other persons in respect of amount  
24 paid or payable to them on account of their transactions  
25 which are taken into account in the said computation and  
26 are calculated by reference to the said amounts or to the  
27 magnitude of the said transactions and not by reference  
28 to the amount of any share or interest in the capital of  
29 a company or society." Those are the only things that are  
30 deductible. That is the same as Section 75.



D5 1 COMMISSIONER GRANT: It is here. Thank you  
2 very much. I will give it further thought.

3 COMMISSIONER WALLS: What percentage of the  
4 export terminal capacity is owned by the co-operatives;  
5 would you have any idea?

6 MR. MALM: The percentage - I don't think I  
7 have got that on my fingertips. I don't know whether Mr.  
8 Baker could answer that offhand..

9 MR. BAKER: Mr. Chairman, I think approximately  
10 half; approximately 50%.

11 THE CHAIRMAN: I want to move to 52. I have a  
12 question there. Is there anything before?

13 At the footnote at the bottom of page 52 I  
14 notice a quotation from Samuelson:

15 "Since 1947 farm income has been sliding  
16 downwards relative to other incomes,  
17 both in total and in per capita terms."

18 Mr. Samuelson is writing about the United States,  
19 I imagine. Would this apply to this country? I suppose  
20 the per capita is not as great as the total reduction.  
21 The farm population has diminished; I wonder if it is  
22 true in Canada that farm income has been sliding downwards  
23 in both per capita and income since 1947.

24 MR. MALM: Definitely.

25 THE CHAIRMAN: Definitely?

26 MR. MALM: That is true. I haven't got the  
27 exact percentage at my fingertips. It is definitely  
28 sliding downwards and continuing to do so.

29 THE CHAIRMAN: Has it not been going up in the  
30 1960's, in the last two or three years, in per capita



D6 1 terms?

2 MR. MALM: You mean?

3 THE CHAIRMAN: Farm income, per capita.

4 MR. MALM: The net has probably improved a bit  
5 in the last couple of years, that is true. On the whole,  
6 from 1947 to the present we have certainly been sliding  
7 downwards.

8 MR. ALLEN: You mean, Mr. Carter, there are  
9 less people?

10 COMMISSIONER WALLS: That is right.

11 MR. ALLEN: Wasn't that the point you are  
12 making; shift from rural to urban population?

13 THE CHAIRMAN: We know the rural population has  
14 diminished. We heard it was diminishing at the rate of one-  
15 and-one-half percent a year. Therefore, with this diminu-  
16 tion in the total population the per capita would come up,  
17 and obviously the per capita -- the diminution in the  
18 population would operate against a decline in the total  
19 when one turns to per capita results.

20 MR. ALLEN: Yes.

21 COMMISSIONER WALLS: The assumption has been  
22 placed before us if the consumer co-operatives are taxed  
23 on the total earnings that they will alternatively price  
24 out; in other words, they will reduce their selling  
25 prices and maintain a status quo as far as their relation-  
26 ship with their members and as far as the total tax paid  
27 is concerned. I am a little concerned with the producer  
28 co-operatives. For instance, what opportunity do you have  
29 if the situation came that you had to pay full corporation  
30 taxes, because you are dealing with the Wheat Board, who





D7 1 sets your price and also sets your handling charge. This  
2 handling charge that it sets is a charge that is compul-  
3 sory for all companies to make; am I right?

4 MR. ALLEN: Maximum.

5 COMMISSIONER WALLS: Maximum. If you put it at  
6 less you could avoid showing a patronage dividend by  
7 reducing your handling charge; is that correct?

8 MR. MALM: I think we could, yes. I think we  
9 would be within our rights to do that.

10 COMMISSIONER WALLS: Thank you.

11 THE CHAIRMAN: On page 54 ---

12 COMMISSIONER GRANT: We are getting too far away  
13 from page 49, and I have something there.

2 14 THE CHAIRMAN: Okay.

15 COMMISSIONER GRANT: Does the Alberta Wheat Pool  
16 operate retail outlets; in other words, do you sell  
17 consumer goods or are you concerned only as a producer  
18 group?

19 MR. MALM: We sell consumer goods to this extent:  
20 that we handle fertilizer, which is consumer goods, in a  
21 sense, to the farmer, and we also handle forage seeds for  
22 the producer.

23 COMMISSIONER GRANT: You are not in the grocery  
24 business?

25 MR. MALM: No, only selling fertilizer at the  
26 present time and selling back forage seeds to the  
27 producer again for his own use. That is the extent of it.

28 COMMISSIONER WALLS: Do you handle feed also?

29 MR. MALM: No, we don't handle feed.

30 THE CHAIRMAN: I am looking at the last sentence



D8 1 on page 54 where you note that the reduction or discon-  
2 tinuance of patronage dividends due to taxes would result  
3 in a decrease in consumer spending. I suppose that is a  
4 very general statement - no more than the larger the tax  
5 the less there is for the consumer to spend and it has no  
6 particularly stronger relevance to this situation than it  
7 would have to any other, I don't imagine. There is  
8 nothing that is not readily apparent in the sentence, is  
9 there?

10 MR. MALM: Except this: that certainly dividends  
11 in the hands of the producer-farmer affects his ability to  
12 spend and to that extent if he didn't get that dividend he  
13 would have that much less to spend.

14 THE CHAIRMAN: If it were taxed he would have  
15 that much less to spend. The Government would be spending  
16 the taxes instead of him.

17 MR. MALM: In fact, he does pay tax on the divi-  
18 dend he receives.

19 MR. ALLEN: With no dividend tax credit.

20 THE CHAIRMAN: I am moving over to the section  
21 starting at paragraph 138. Any questions before that?  
22 I will move myself to page 70, the bottom of page 70.  
23 You will be pleased that I have underlined certain words  
24 which came against Item No. 3 on the last line of that  
25 page:

26 "Earnings on which income tax was paid,  
27 \$1,132,108."

28 That is in respect of yourselves. I think I  
29 would note that if we were having regard to the consumer  
30 co-operative and it held back some of the distribution



D9 1 those earnings would be there but we wouldn't be able to  
2 add words 'on which income tax was paid' - that is true,  
3 isn't it?

4 MR. ALLEN: In the consumer co-op - I would  
5 think so, sir. If the earnings they retained didn't  
6 disturb patronage dividends or their 30% on capital  
7 invested and so on - to the extent that those earnings  
8 are taxed you would have the same item. I must admit I  
9 have not the familiarity with the consumer producer.

10 COMMISSIONER WALLS: Their patronage dividends  
11 are non-taxable?

12 MR. ALLEN: They are deductible from your own  
13 income.

14 COMMISSIONER WALLS: That is right.

15 MR. ALLEN: Yes.

16 COMMISSIONER WALLS: And ~~and~~ <sup>untaxable</sup> in the hands  
17 of the recipient?

18 MR. ALLEN: Unless they represent a dividend on  
19 consumer goods or services.

20 COMMISSIONER GRANT: You say that the consumer,  
21 when he receives the consumer dividend, patronage dividend  
22 is taxable through his income.

23 MR. ALLEN: Some is deductible and in other  
24 cases it is not. You have to read the two sections  
25 together; sub-section 6 and Section 75, and the definition  
26 of consumer goods.

27 COMMISSIONER GRANT: I didn't think that he  
28 could deduct his patronage dividend from his income.

29 MR. ALLEN: He doesn't deduct it from his income.  
30 It might come in tax-free.



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D10 1 COMMISSIONER GRANT: It comes in tax-free?  
2 MR. ALLEN: Our patronage dividends never come  
3 in tax-free.  
4 COMMISSIONER GRANT: They represent over-payments  
5 for goods he purchased?  
6 MR. ALLEN: He gets a refund. It all depends  
7 whether these goods he bought are expense items or  
8 capital items. The terms are different.  
9 COMMISSIONER GRANT: That comes back to our  
10 previous argument.  
11 MR. ALLEN: That is it.  
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E/MR/dpw 1

2 COMMISSIONER GRANT: It is not that it is  
3 deductible from his income. It's that that part of his  
4 durable  
5 dividend which relates to goods is going to be included  
6 in his depreciation account.

7 MR. ALLEN: I guess that's about the way it  
8 would work out. He can't have his cake and eat it.

9 THE CHAIRMAN: Mr. Secretary, I think we will  
10 stand over for five minutes.

11 THE SECRETARY: Fine, sir.

12 --- Short Recess

13 THE CHAIRMAN: We have very few questions  
14 remaining. I think we have covered this very well,  
15 although you have a question, Mrs. Milne, relating to  
16 page 70.

17 COMMISSIONER MILNE: Yes, paragraph 171, where  
18 you speak about the capital expenditures and the gross shown  
19 there, and in relating to figures under Item 3, earnings  
20 on which income tax was paid, it would seem to be less  
21 than 8% used in capital expansion and I thought possibly  
22 you would clarify the statement for me in relation to a  
23 statement that occurs earlier, back on page 38, under  
24 Section 83. It's the last sentence of that paragraph:

25 "On the other hand, a co-operative which  
26 finances itself with undistributed  
27 patronage dividends is not putting pres-  
28 sure on the general capital market, but  
29 rather is acquiring finance by providing  
30 its members with encouragement and



E2 1 opportunity to save."

2 MR. ALLEN: Of course, your retained earnings,  
3 they are used, as will be apparent from a perusal of the  
4 financial statements for the purchase of wheat, and so on,  
5 and on page 70, of course, we are talking about capital  
6 expenditures, so we don't have to go into the market to  
7 meet ordinary operating expenses and so on, for the purpose  
8 of wheat and all other things which we have to have.

9 Our retained earnings, for the purpose of paying  
10 interest on bank borrowings, and so on, finance wheat  
11 purchases, but on the page that we are referring to we are  
12 talking strictly about the extent to which the retained  
13 earnings have been used for capital acquisition rather than  
14 for operational expenses.

15 COMMISSIONER MILNE: And the second item, the  
16 bank loan which is required; would you amplify that a  
17 little?

18 MR. ALLEN: Those bank loans were for the  
19 purpose of - that big bank loan, that \$3,500,000,  
20 subject to correction from Mr. Baker, I think that was  
21 entirely incurred, or almost entirely incurred in connec-  
22 tion with the increased capacity of the terminal elevator  
23 of Vancouver. Two-and-a-half million dollars was used  
24 for that purpose and the rest was spent in expanding  
25 country elevator facilities.

26 COMMISSIONER GRANT: I hope my question that I  
27 want to address to you is not a duplication of what Mrs.  
28 Milne was talking about. I was thinking of my question  
29 at the time and perhaps I lost the trend of your reply,  
30 Mr. Allen, but when the Alberta Wheat Pool has occasion



E3 1 to look for outside finances, have you ever had occasion  
2 to go into the bond market to raise the money?

3 MR. ALLEN: We have issued bonds but not to the  
4 public. The bonds are issued to the banks exclusively  
5 in order to provide them with the type of security they  
6 want.

7 COMMISSIONER GRANT: It would be safe to say  
8 that apart from your own resources, that the banks have  
9 been taking care of your needs?

10 MR. ALLEN: The banks have, and we must, with  
11 a bow in the direction of the Alberta Government, say  
12 they have been taking care of us for quite a long period,  
13 too, at one stage of the game; back in the early 30's.  
14 That is correct, is it not, Mr. Malm?

15 MR. MALM: That is right.

16 MR. ALLEN: We did issue bonds at that time.  
17 The Alberta Government held bonds of the Wheat Pool in a  
18 very substantial sum but we have never gone public with  
19 bond issues.

20 COMMISSIONER GRANT: Have you had occasion to  
21 raise capital funds through the sale of bonds to your  
22 membership?

23 MR. ALLEN: No, we have never done that.

24 COMMISSIONER MILNE: In respect to patronage  
25 refunds that are left with the Pool, do the members  
26 contract to leave a certain percentage or is there a  
27 certain provision that governs the amount that is left?

28 MR. ALLEN: It's governed by the act of incorpora-  
29 tion, really, and the bylaw, and the amount which is  
30 retained is really largely in the discretion of the



B4 1 directors of the company. Let's put it the other way:  
2 the amount that is distributed is in the hands of the  
3 directors subject to authorization by the delegates and  
4 normally the amount that is retained is also in the hands  
5 of the directors authorized by the delegates. In other  
6 words, the main body of the Wheat Pool determines how  
7 much shall be retained and how much shall be distributed.

8 THE CHAIRMAN: We had a discussion earlier on  
9 the operation of the reserve and you, Mr. Allen, were  
10 good enough to explain it. I think I follow it, but in  
11 order to be sure that we are quite clear on it, I wonder  
12 if one of your officers might put on paper the flow of  
13 the reserve and I don't mind whether you use actual  
14 figures or not, so we can see the movement of the reserve  
15 from one year's end to the next year's end.

16 MR. ALLEN: Yes, that can be done.

17 THE CHAIRMAN: I think that would be an easy  
18 way for us to fully understand it.

19 MR. ALLEN: We really have to go a long ways  
20 into the background; what the service reserve took from  
21 the old contract and the reserves created by statute.

22 COMMISSIONER GRANT: We will be studying what  
23 you put on the transcript, Mr. Allen.

24 THE CHAIRMAN: We have not, by any means, dealt  
25 with all the material in your submission. One thing I am  
26 delighted to have, and that was the discussion which  
27 distinguished the need for separation of the two components  
28 of patronage dividend which you set forth at some length  
29 in the last chapter, and I think it is quite interesting.

30 We have no further questions to put to you. I





E5

1 think we have covered every column that we see in your  
2 submission at the moment. Would you have anything that  
3 you would like to add?

4 MR. ALLEN: I would just like to add if any of  
5 the gentlemen here in an advisory capacity, for example,  
6 Mr. Baker, or anyone else, feels that perhaps we at the  
7 table here have not just made the situation entirely  
8 clear, they would now speak up or forever hold their  
9 peace.

10 THE CHAIRMAN: Fair enough. Does anyone wish  
11 to speak up? We are very grateful to you, indeed. This  
12 has been a most interesting submission to read and it will  
13 continue to be very helpful to us in consideration of  
14 this problem, which we recognize as one of the most impor-  
15 tant problems with which we are confronted in this area  
16 of taxation.

17 Thank you both for the submission and for  
18 appearing today and trying to help us over this hurdle.  
19 We are very grateful to you, indeed.

20 MR. MALM: On behalf of the members here, and  
21 myself, I want to thank you very kindly for the thorough  
22 discussion we have had on this matter, and I hope that we  
23 have helped to clarify some of the problems. Thank you.

24 THE CHAIRMAN: We will stand over for three  
25 minutes.

26

27 --- Short Recess

28

29 THE CHAIRMAN: Mr. Secretary, we are ready up  
30 here.



E6 1 THE SECRETARY: Mr. Chairman, the next submission  
2 is being presented by the Calgary Power Limited. Mr. G.H.  
3 Thompson, President of the Calgary Power Limited is here.  
4 Mr. A.W. Howard, Vice-President; Mr. Howard will speak to  
5 the brief and Mr. J.R. Tolmie, counsel for the Calgary  
6 Power.

7 I would like to enter this brief into the record  
8 as Exhibit 165.

9  
10 --- EXHIBIT NO. 165: Submission of Calgary Power Limited.

11  
12 SUBMISSION OF CALGARY POWER LIMITED

13 Appearances: Mr. G.H. Thompson  
14 Mr. A.W. Howard  
15 Mr. J.R. Tolmie, Q.C.

16 THE SECRETARY: At the same time, Mr. Chairman,  
17 we have received a letter from Mr. J.C. MacKeen, Chairman  
18 of the Board of the Nova Scotia Light and Power Company  
19 Limited. I would like to read into the record three  
20 paragraphs.

21 "We have read Calgary Power's brief and we find  
22 ourselves in complete accord with its contents, and we  
23 consider this brief to be a strictly factual presentation  
24 of the tax problem as it affects investor-owned electric  
25 utilities in Canada at the present time.

26 The matters raised in this brief apply equally  
27 to Nova Scotia Light and Power Company, Limited despite  
28 the fact that we have 50% fewer customers.

29 We, therefore, would like to record our full  
30 and unqualified support of the Calgary Power brief."

This is signed by the Chairman of the Board.



E71 I would like to enter this letter into the record as  
2 Exhibit 166.

3  
4 --- EXHIBIT NO. 166: Letter from the Nova Scotia Light  
5 and Power Company Limited, dated  
6 August 14th, 1963.

7 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
8 morning, Mr. Thompson, Mr. Howard and Mr. Tolmie. Glad to  
9 see you. As I think you are aware, we have already had a  
10 little discussion of this problem. Before getting to the  
11 problem, I think we would like to know as much as you care  
12 to tell us about the Calgary Power Company. You very  
13 kindly sent us copies of the annual report and a map of  
14 the distribution system.

15 The Calgary Power Limited, of course, is a public  
16 company with a large number of shareholders, I presume.

17 MR. HOWARD: Yes, sir. The company originally  
18 goes back to the year about 1909. It has been in business  
19 in this province now for some 50-odd years. It operates  
20 in a service area in Alberta covering a great part of the  
21 central and southern part, just under 100,000 square miles.  
22 It supplies directly and indirectly through the wholesale  
23 contracts approximately 225,000 customers. It's the  
24 largest electric utility operating in Alberta and I think,  
25 with the exception of the situation out in British Columbia,  
26 is the largest investor-owned utility in Canada.

27 It operates in its service area approximately  
28 5,000 miles of transmission. It has an installed capacity  
29 at the present time of approximately 638,000 kilowatts  
30 and through these facilities supplies about two-thirds of



B8 1 the electric power requirements of the Province of Alberta.  
2 It has under construction at the present time a water power  
2 3 plant north and west of Calgary. The first unit will be  
4 in commission in 1964 which will provide us with a further  
5 150,000 kilowatts.

6 The second unit to that same plant will be  
7 commissioned in 1966 of 190,000 kilowatts, and we just  
8 committed ourselves recently with a further unit in our  
9 Roblin power - steam power plant - of 300,000 kilowatts.

10 The point I would like to make in this regard,  
11 sir, is that between now and 1968, a period of some five  
12 years, we will have installed an additional capacity of  
13 640,000 kilowatts. This is almost equivalent to what we  
14 have now installed since its inception in 1909. The next  
15 five years we will have installed as much capacity as we  
16 had in the last 50.

17 Our load is generally of a mixed load. We  
18 supply approximately one-third to industry; approximately  
19 one-third to the towns, villages, throughout the province;  
20 about 20% to wholesale consumers, and bulk sales contracts  
21 to the City of Calgary; balance of some 12% to farm  
22 customers throughout our service area.

23 We now supply about 37,000 farms. The company  
24 is, I think, a Canadian company. It has some five-and-a-  
25 quarter million common shares outstanding, held by some  
26 4,800 shareholders. About 80% of these shares are resi-  
27 ding in - are listed as residing in Canada. About 12%  
28 in the United States and the balance of some 8% in the  
29 United Kingdom.

30 The sales revenue, power sales, amount to some





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E9 1 \$32 million. I think most of these facts, sir, are borne  
2 out in the little booklet, copies of which you have. It's  
3 statistical information provided for the purpose of the  
4 employees and stockholders and I think covers most of the  
5 detail there I have mentioned to you in the last few  
6 minutes.

7 I might refer you to the map which is the  
8 research section of the booklet, and shows the solid red  
9 lines which are lines owned and operated by Calgary Power.

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1 The lines dotted are operated or serviced by  
2 another utility company in the province, from which you  
3 have already had a submission, Canadian Utilities. You  
4 may note these lines cover most of the central and southern  
5 parts of the province.

6 THE CHAIRMAN: You have several plants?

7 MR. HOWARD: Yes, sir. We have a mixed generating  
8 system. We have eleven water plants on the Bow  
9 River west of Calgary totalling about 325,000 kilowatts.  
10 We have a thermal plant west of Edmonton on Lake Wabamun,  
11 about 30 miles west of Edmonton which was constructed -  
12 the first section in 1956 and the second in 1958 and we  
13 just commissioned a further unit last Fall. This plant  
14 has a total capacity now of 287,000 kilowatts. In addition  
15 to that we have a purchase agreement with the City of  
16 Medicine Hat which makes available to us approximately  
17 another 25,000 kilowatts.

18 COMMISSIONER GRANT: What fuel are you using?

19 MR. HOWARD: At the present time it is a mixed  
20 fuel plant. Half the plant, 132,000, is fired with gas.  
21 One is in the process of being converted to coal and the  
22 third unit of 150,000 kilowatts is coal.

23 COMMISSIONER GRANT: Half-and-half?

24 MR. HOWARD: About half-and-half. It is the inten-  
25 tion that in the future that further extensions will  
26 probably be coal-firing.

27 COMMISSIONER WALLS: I note you say you are  
28 flanked by tax-free provincially-owned systems in the  
29 adjoining provinces. Are you not now also flanked by  
30 East Kootenay Light and Power?



F2

1 MR. HOWARD: I think we were referring to the  
2 B.C. Hydro and Power Authority. It is true we have East  
3 Kootenay which operates in the Goose Neck Pass and even  
4 a bit inside the border.

5 COMMISSIONER WALLS: You wouldn't be in direct  
6 competition with the adjoining power from public utilities?

7 MR. HOWARD: Not as a direct connection, but,  
8 of course, we are, by implication, if you wish to put it  
9 that way. As a matter of fact, B.C. Hydro and Power  
10 Authority are at Golden Bridge, which is very close.

11 THE CHAIRMAN: I assume that you are regulated  
12 by the Public Utilities Commission?

13 MR. HOWARD: Yes, we are regulated by the Public  
14 Utilities Board.

15 THE CHAIRMAN: Is there a rate of return set by  
16 that Board?

17 MR. HOWARD: No. So far the electric companies  
18 of the province haven't had a rate of return set on their  
19 operations.

20 THE CHAIRMAN: Do you deal in anything besides  
21 electricity?

22 MR. HOWARD: We have four small water systems  
23 which we operate as well. One of these is in the City of  
24 Camrose, the City of Wetaskiwin, the Town of Lacombe and  
25 the Town of McGrath.

26 THE CHAIRMAN: This represents a very small  
27 proportion?

28 MR. HOWARD: This represents a very small propor-  
29 tion of our total revenue.

30 COMMISSIONER WALLS: Actually, you, at the



F3 1 present time are, perhaps, not too greatly concerned with  
2 competition with Crown-owned plants because they are only  
3 at the municipal level, but I believe your concern is  
4 based on the fact at least one political party in the  
5 province is advocating that the whole province now be  
6 under Crown utilities; is that correct?

7 MR. HOWARD: That is correct, sir. We are  
8 concerned about that. We are also concerned about the  
9 overall picture in the country as a whole in recent years,  
10 the take-over in British Columbia and more recently the  
11 take-over in Quebec.

12 THE CHAIRMAN: The measure of what I think you  
13 refer to as discrimination would be the amount of income  
14 tax in your sales dollar, I would assume.

15 MR. HOWARD: That is correct.

16 THE CHAIRMAN: I think we have been told that  
17 generally that runs around about 12%. Would it be some-  
18 thing like that in your case?

19 MR. HOWARD: I think it runs a little higher  
20 than that. It varies from year to year, as you will  
21 appreciate. I believe the percentage varies with the tax.  
22 The income tax paid by our company in 1961 was approxi-  
23 mately 15% and approximately 19% in 1962, as you will note  
24 from the annual reports which you now have.

25 THE CHAIRMAN: You say 19% in 1962?

26 MR. HOWARD: Yes. The tax will vary on the amount  
27 of plants brought into the system from time to time.

28 THE CHAIRMAN: It does provide for tax on depre-  
29 ciation claimed in excess of in the books - note 3.

30 MR. HOWARD: The figures I am quoting are only





F4 1 taxes actually paid, not tax liability.

2 THE CHAIRMAN: You are on what is known as flow-  
3 through tax.

4 MR. HOWARD: Pardon?

5 THE CHAIRMAN: You are on what is known as flow-  
6 through tax.

7 MR. HOWARD: No, we set aside a deferred tax in  
8 a special reserve.

9 THE CHAIRMAN: You charge it in your income  
10 account?

11 MR. HOWARD: Yes.

12 THE CHAIRMAN: Therefore, it is included in the  
13 six million, four?

14 MR. HOWARD: It is included in the six million,  
15 four.

16 THE CHAIRMAN: Thank you. That is what I wanted  
17 to know. You are making full provision and that comes to  
18 about 19%, as I think you say.

19 MR. HOWARD: I think the six - I haven't got a  
20 copy of the report. Is it 6.6 million?

21 THE CHAIRMAN: It is 6,470,000 taxes on income  
22 in 1962, and your gross is 30,680,000. Dividing one into  
23 the other it seems to me to come to 21%.

24 MR. HOWARD: The 19% I was referring to was  
25 tax actually paid as a percentage of gross revenue.

26 THE CHAIRMAN: The income account is closer to  
27 21% from what I have got here. Thank you. Are there any  
28 further questions before we get to the meat of this?

29 I think we would recognize that there are addi-  
30 tional expenses incurred by privately-owned utilities as



F5 1 against publicly-owned utilities, and I think this addi-  
2 tional expenses is income tax. Do you have one or more  
3 proposals as to how to cure this difficulty?

4 MR. HOWARD: Well, we probably have, sir. We  
5 noted in the press this morning a suggestion made by  
6 Canadian Utilities as to how this might be handled. I  
7 would say we would generally concur in that suggestion  
8 and what it means. That is that the Federal Government  
9 would, presumably, vacate the field and substitute some  
10 form of end-use tax which would either make up the amount  
11 they lost or such additional amounts as may seem necessary.

12 To put it in its proper perspective it would  
13 seem of the amount of tax which is now collected, some  
14 12 or 13 million, approximately 50% comes back to the  
15 province so the Dominion Government would presumably  
16 receive some six-odd million. I would suspect that six  
17 million could be recovered by tax of something less than  
18 1% on power sold throughout the country.

19 THE CHAIRMAN: Power sold by everybody?

20 MR. HOWARD: Power sold by everybody.

21 THE CHAIRMAN: Publicly-owned or otherwise?

22 MR. HOWARD: Yes.

23 THE CHAIRMAN: You would assume that tax of less  
24 than 1% would be collected by the organization selling  
25 power, whatever that might be?

26 MR. HOWARD: That would, presumably, be the case.

27 THE CHAIRMAN: In the case where those were  
28 owned by governments, provincial or municipal, do you  
29 think they could be required to collect the tax? Have  
30 you considered that at all?



F6 1 MR. HOWARD: There may be some practical diffi-  
2 culties involved. They wouldn't seem to be insurmountable.  
3 Perhaps Mr. Tolmie might add something to that.

4 THE CHAIRMAN: I was hoping we might get Mr.  
5 Tolmie's view.

6 MR. TOLMIE: We noted that this question was  
7 raised in Edmonton. There wouldn't appear to us to be  
8 any constitutional difficulty. Nor, in our view, is there  
9 any practical difficulty, although there may be a political  
10 one. Already Ottawa requires such Crown-owned, provincially  
11 Crown-owned, or municipally-owned corporations, commissions  
12 and so on, to collect taxes on behalf of the Dominion which  
13 are passed on to the consumer, to the end user. Of course,  
14 that requires them to withhold income tax on their  
15 salaries, wage-earners, employees, and requires them to with-  
16 hold the non-resident tax, if and where applicable. The  
17 provinces themselves have resorted to this very device in  
18 collecting their gasoline tax. They have appointed agents  
19 to get over their constitutional difficulty; here a very  
20 real one. They couldn't impose a direct tax. The  
21 provinces have made the gasoline companies, the service  
22 stations, the agents of the Crown in the province, to  
23 collect from the real taxpayer, the purchaser of gasoline,  
24 the road tax that we all pay.

25 Certainly, the sales tax imposed on power, the  
26 sale of power. is an indirect tax which  
27 Ottawa is authorized to levy and it would be borne ulti-  
28 mately by the user, the same as the sales tax today is  
29 borne by the consumer. There doesn't appear to be any  
30 difficulty, either legal or practical, to have such a tax



F7 1 collected by the provincially-owned utilities the same as  
2 it would be by the investor-owned utilities.

3 THE CHAIRMAN: Thank you, Mr. Tolmie. We have  
4 noted these other taxes are collected, and presumably  
5 these requirements are made by the Provincial Government  
6 in the case of federal tax.

7 MR. TOLMIE: Yes.

8 THE CHAIRMAN: We have wondered to what extent,  
9 and when I say "we," I had better say I - I have wondered  
10 whether that is wholly enforceable because obviously it  
11 would be resisted in this case, at least I would suspect  
12 it would be resisted. I am curious. I don't know I can  
13 expect a complete answer from you at this time as to  
14 whether one government can require another government to  
15 collect its tax if it refuses to do so.

16 COMMISSIONER GRANT: May I enter this discussion  
17 which is a very interesting one? There is no legal impediment  
18 to the Federal Government imposing an end-use tax.  
19 If it is the consumer who has to pay that tax it becomes  
20 a matter of setting up the machinery to collect it.  
21 We would assume that the Federal Government, the cost of  
22 establishing their own collection agency would be prohibi-  
23 tive and therefore they would have to do it through the  
24 company that was <sup>generating</sup> the electricity. They could  
25 impose that tax upon such a company as Calgary Power and  
26 they could constitute <sup>it in their</sup> collection agency and they  
27 could do that by law. They could do it with any other  
28 independently-owned company. When you come to imposing  
29 this type of tax upon a provincially-owned company, a  
30 Crown corporation of the province, I would be concerned





F8 1 certainly, as to the validity of that tax, in the first  
2 instance, as to whether or not it would be intra vires.  
3 If it is inter vires then it becomes a matter of seeking  
4 the co-operation of the provincially-owned corporations  
5 to collect the tax. If it is ultra vires then it is out  
6 the window.

7 MR. TOLMIE: As I mentioned before I don't think  
8 there is any limitation on Ottawa's right, jurisdiction,  
9 to levy taxes, either indirect taxes or direct. This is  
10 clearly an indirect tax. There is no inherent limitation  
11 in the B.N.A. Act, that I know of, which says that Ottawa  
12 must go easy on taxation on a commodity or a process or  
13 even an entity such as a Crown-owned corporation with the  
14 right of the province, if the tax we are speaking of is a  
15 true tax.

16 We have instances in the past of the Crown right  
17 of the Dominion levying taxes which required provincial  
18 co-operation and provincial collection. In the Income  
19 Tax Act today we have specific exemptions for this very  
20 type of provincial Crown-owned corporation, specific  
21 exemptions put in as a matter of policy in the Income Tax  
22 Act.

23 It wouldn't appear there - it wouldn't have  
24 been in this section of the Act if there was inherently  
25 no right on the part of the province to tax such an entity.

26 COMMISSIONER GRANT: Unless it was put in for  
27 reasons of expediency.

28 MR. TOLMIE: Ex abundtai cautela, as lawyers  
29 say. I would submit the exemption had to be provided or  
30 otherwise every corporation and every person in Canada was



F9 1 subject to tax levied by Ottawa, because Ottawa has the  
2 clear right to levy a tax, and the Hydro-Quebec, or Ontario  
3 Hydro is a person, and as such comes under the jurisdiction  
4 of the Act and must pay a tax unless the exemption was  
5 provided.

6 COMMISSIONER GRANT: The big hurdle to me, Mr.  
7 Tolmie, would be under Section 125 of the B.N.A. Act  
8 which says:

9 "No lands or property belonging to Canada  
10 or any province shall be liable to taxa-  
11 tion."

12 Property, I would assume, would include personal  
13 property. It doesn't restrict it to real property.

14 MR. TOLMIE: This isn't taxation on property.  
15 This is taxation of income and the constitutionality of  
16 the income tax has been settled. It was settled long ago  
17 by the Privy Council as a proper exercise of tax powers  
18 by the Federal Government. It was ruled not to be an  
19 infringement of Section 125 which referred to taxation of  
20 property.

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G/MR/dpw 1

This was the taxation of income earned by persons

2 whether they were judges, whether they were corporations  
3 or they were just ordinary individuals, and, of course,  
4 employees of the province have always been taxable and the  
5 wages which they receive from the province have been just  
6 like provincially-appointed judges.

7 Now, for Ottawa to exempt, as they have done in  
8 the Income Tax Act, certain Crown corporations in the right  
9 of the province - 90% are owned more by provinces or  
10 municipalities - was an exclusion from the clear taxation  
11 powers which they felt they had. Of course, they did that  
12 for reasons of policy.

13 COMMISSIONER GRANT: What I feel we are discus-  
14 sing here is taxes on a product, not on income, and if it  
15 is a tax on a product then electricity becomes a product,  
16 which is a manufactured product such as an article of  
17 clothing.

18 MR. TOLMIE: It is goods. At the present time  
19 electricity has been taken to be goods for the purpose of  
20 the present Excise Tax Act, for the sales tax.

21 COMMISSIONER GRANT: That is what I think the  
22 problem boils down to. It is a nice legal argument which  
23 we certainly do not have to settle here, but I still have  
24 great doubts as to the power of the Federal Government to  
25 impose taxes on a commodity when it is owned by the provin-  
26 cial authorities.

27 MR. TOLMIE: Ottawa does it today under the sales  
28 tax. It taxes products, manufactured goods, as defined in  
29 the Excise Tax Act irrespective of who owns them, who is  
30 the buyer.



G2 1 COMMISSIONER GRANT: They impose the tax. I  
2 wonder if they collect it?

3 MR. TOLMIE: Yes, they collect it, sir.

4 COMMISSIONER GRANT: On provincially-owned  
5 corporations?

6 MR. TOLMIE: I would think so. If you have a  
7 provincially-owned corporation who is a manufacturer of  
8 goods, as defined in the Excise Tax Act, then they would  
9 be imposing sales tax on those goods as at the manufac-  
10 turer's level; namely, at the provincial corporation level,  
11 and I believe you have examples in Saskatchewan where  
12 provincial corporations are manufacturing goods such as  
13 Canadian Horse Meat, I believe, and glue, and various  
14 things which would be subject to tax.

15 COMMISSIONER GRANT: I can see how the province,  
16 under those circumstances, could very well recognize the  
17 equity of such a tax, and not challenge it.

18 THE CHAIRMAN: Is your point in those cases that the  
19 tax would be on the purchaser; namely, on a person, and  
20 that the Provincial Government would be collecting that  
21 tax?

22 MR. TOLMIE: It is the collecting agent. That  
23 is passed on to the ultimate consumer as sales tax on  
24 electrical power.

25 COMMISSIONER WALLS: I am going to be extra-  
26 ordinarily brave and get into a discussion on a consti-  
27 tutional question after it has been dealt with by two  
28 lawyers which is, I know, a very risky thing to do, but  
29 first of all, it seems to me that your recommendation of  
30 putting on a 2% sales tax is going to remove your industry





63 and all other utilities from the taxation field and put  
2 the load, then, directly on the consumers so it seems to  
3 me the other solution that should be investigated is as  
4 to whether there is the power to tax all utility companies,  
5 including Crown utility companies.

6 Now, I know that it is considered, under the  
7 British North America Act, that you can't tax a province  
8 or a municipality but the mere fact that in Section 62  
9 they deemed it necessary to write into the Income Tax Act  
10 that it exempted these would create, in the layman's mind, that  
11 there might be some doubt as to the constitutionality of  
12 that.

13 Now, also, it would look to me as if the Federal  
14 Government's intent was that a Crown corporation, if it  
15 was competing with private industry, should be taxed because  
16 under Section 84 it imposes taxation on federal corpora-  
17 tions listed under Schedule D of the Financial Administra-  
18 tion Act due to the fact that these Crown corporations would be carrying  
19 on business similar to privately-owned corporations and  
20 in this case it includes one utility company.

21 In other words, the Northwest Territories  
22 Power Commission are taxable to the Federal Government.  
23 A federally-owned utility company pays taxes to the Federal  
24 Government so I am just wondering if, in view of this  
25 precedent, and in view of the fact it was found necessary  
26 to write Section 62 into the Act, whether the lawyers  
27 have studied as to whether it would be constitutional  
28 to tax the Crown corporations as well as the private  
29 corporations.

30 MR. TOLMIE: Well, sir, to deal with the last



G41 point first, which is always a little more convenient,  
2 Section 84, which imposes the tax on Dominion Crown  
3 corporations, was done more in the spirit of, well, to  
4 meet criticism of the public for Ottawa being in business,  
5 and they had two corporations in mind specifically -  
6 Eldorado and Polymer - and it did not make any difference,  
7 you see, in net effect because the tax was paid and,  
8 therefore, the dividends paid by these companies, to Mr.  
9 C.D. Howe at that time, offset each other.

10 I do not think there is any inference to be  
11 drawn from the fact that Section 84 is in the Act as to  
12 the limit or the lack of limits of Ottawa's jurisdiction  
13 to tax Crown corporations, whether they are federal or  
14 provincial.

15 With regard to Section 62, as I mentioned  
16 earlier, I think that Section 62 at least carries this  
17 implication or inference ----

18 COMMISSIONER WALLS: Before you get to 62, do  
19 you agree that Section 84, as it applies to the Financial  
20 Administration Act, taxing some 15, 20 different Crown  
21 corporations, was done for the purpose of avoiding competi-  
22 tion with private enterprise?

23 MR. TOLMIE: The reason for Section 84 was to  
24 meet the criticism of Eldorado and Polymer, and they had  
25 to rope in the others but no one ever expected, for  
26 instance, that the C.N.R. would ever pay taxes but it makes  
27 the thing theoretically justifiable to have Crown corpora-  
28 tions in the right of the Dominion, which are in business,  
29 pay taxes the same as other taxpayers although it made no  
30 difference at all to the fiscus of Canada.



G5 1           Therefore, with that bit of window dressing,  
2 politically or otherwise, the issue which you are raising,  
3 and as I mentioned earlier, I don't think that the  
4 inference you can draw from Section 62, which gives a  
5 specific exemption to municipal and provincial Crown  
6 corporations, and bodies that are 90% owned by munici-  
7 palities or provinces, I do not think the inference from  
8 that is that there is any limitation on the Federal power  
9 to tax.

10           I think the inference, if any, is the reverse.  
11 Namely, that it was recognized that Ottawa did have the  
12 right to tax these persons, because they are persons, and  
13 that without a specific exemption of them, they would be  
14 covered by the Act so for policy reasons Ottawa exempted  
15 municipal and provincial utilities and commissions.

16           COMMISSIONER WALLS: Then why do you not  
17 recommend a change of the Section 62 as a solution to  
18 your problem rather than avoiding taxes by all utilities?

19           MR. TOLMIE: Well, because of the practice since  
20 the beginning of income tax to exempt provincial and  
21 municipal institutions. It is so well-established, and it  
22 is so well-recognized, that it becomes the chief argument  
23 of provincial politicians as to why they should expropriate  
24 a power company, because they will then immediately get it  
25 under the exemption and they will no longer have to pay  
26 any tribute to Ottawa for running this very profitable  
27 business, which has been the basis upon which these acts  
28 of expropriation have been justified to the public.

29           It may not have been the prime reason for the  
30 expropriation, but they certainly have been sold to the



G6 1 public on that basis.

2 COMMISSIONER WALLS: Is it not going to be rather  
3 hard for this Commission to bring out any new tax sugges-  
4 tions, if you are suggesting we use as a guide something  
5 just because it has been in practice for a great number of  
6 years?

7 THE CHAIRMAN: Mr. Tolmie is saying that he  
8 thinks we should be practical.

9 MR. TOLMIE: That is right, and that a less objec-  
10 tionable change, if you have to make a change, a less  
11 objectionable change is to put this tax where it belongs;  
12 namely, passed on to the consumer. In any case, put it  
13 where it belongs as a service or end-use tax in the form  
14 of sales tax, and then it passes through these exempt  
15 bodies, the same as it would be passed through the taxable  
16 bodies to the consumer.

17 COMMISSIONER WALLS: Then if you are going to  
18 tax service on the sales tax basis, why would you not  
19 create the same sales tax as you apply to goods that are  
20 subject to sales tax?

21 MR. TOLMIE: Well, we have discussed this earlier,  
22 and as Mr. Howard said a tax of less than 1% today on all  
23 the power produced in Canada would compensate Ottawa  
24 completely for the loss of their half of the income tax  
25 they now collect from the investor-owned utilities. It  
26 becomes a matter of judgment and of tax policy for the  
27 Minister of Finance to determine how much taxes he should  
28 or would like to collect from the power industry as such.  
29 Sales taxes of 3% would produce about \$20 million to  
30 Ottawa and it would be three times what they are getting





G7 1 now. A tax of half the sales tax,  $5\frac{1}{2}\%$ , would produce  
2 about \$45 million.

3 COMMISSIONER WALLS: You have only applied this  
4 to your own industry, not to any other utility, because  
5 if you were to put in an end-use tax, I imagine that you  
6 would have to give consideration to applying it to all  
7 utilities, not just the one utility or two utilities.

8 THE CHAIRMAN: Would you stop at utilities?  
9 Would you stop at other industries where a government had  
10 a position?

11 MR. TOLMIE: I think Mr. Howard had better answer  
12 that. We anticipated this question, too.

13 MR. HOWARD: Well, I don't know if we have the  
14 right answer for that, Mr. Carter. We feel that our  
15 business is exclusively, other than the water system, the  
16 sale of power. We do not feel competent to comment on the  
17 situation of other industries; whether they have a tax  
18 discrimination problem or whether they do not. We are not  
19 certain whether the remedies that might be applied to us  
20 would suit their particular situation. I am afraid we are  
21 at a loss on that.

22 THE CHAIRMAN: That is fair enough. Supposing  
23 the solution to this problem which we have heard before,  
24 might be for the Federal Government to turn over 100% of  
25 its public utility taxes to the Provincial Government in  
26 order that there would be no advantage to them in expro-  
27 priation from the tax point of view. Would that be an  
28 equally good solution as far as you are concerned?

29 MR. THOMPSON: No, sir, that would not remove the  
30 discrimination we have right here in the province between



G8 1 our own utility and the municipally-owned.

2 THE CHAIRMAN: That is true, it would not remove  
3 the discrimination but would you be concerned very much  
4 about the discrimination? Would it not at least meet the  
5 answer of the threat of expropriation because it would be  
6 of no advantage to a provincial government to then seize  
7 the utility?

8 MR. THOMPSON: Yes, it would. It will remove  
9 the incentive to take over by the province, but nevertheless,  
10 the income tax and the old-age security tax together  
11 amount to roughly 20% of the disadvantage that we have  
12 as compared to the municipally-owned utilities.

13 THE CHAIRMAN: Well, I think we understand that  
14 there is a problem. You certainly have given us one  
15 answer to it. There may be others. If any utility  
16 companies, during the time of our deliberations, have any  
17 further thoughts on it - it is obviously a very difficult  
18 matter - we would be very glad to hear them and receive  
19 a letter on anything further for we have got to continue  
20 our deliberations in this matter. We certainly appreciate  
21 what you have done and the submission you have made. Have  
22 you anything further to say?

23 MR. HOWARD: The only thing I might add to that,  
24 Mr. Carter, is that the Canadian Electrical Association,  
25 which represents all of the utilities in Canada, both  
26 private and publicly-owned, will be submitting a brief  
27 later on to your Commission; I think some time probably  
28 in October, and I presume that this particular problem  
29 will be dealt with in that brief as well.

30 THE CHAIRMAN: Fine. It might be very helpful



G9 1 If you passed on some word of our problems on this, which  
2 you are now well aware of and the further they can go to  
3 help us with it, the more appreciative we are going to be.  
4 Thank you very much, indeed.

5 COMMISSIONER GRANT: May I just add that the  
6 constitutional aspect of this thing seems to me to be  
7 an important problem because there is no sense of taking  
8 cognizance or recommending a change in the present tax  
9 structure unless we are satisfied that they are workable  
10 so that I think a further submission on that point would  
11 be very helpful.

12 MR. THOMPSON: If I can just say another word:  
13 you will understand we are not trying to avoid taxation  
14 in any way. It's the discrimination that worries us.  
15 If we were freed of the income tax tomorrow, we would  
16 immediately make a rate reduction commensurate.

17 THE CHAIRMAN: Yes, we understand the operation  
18 of rate control, I think, and the fact that your income  
19 tax is passed on to consumers. I have always thought  
20 this was the industry where it is most apparent that income  
21 taxes were passed on wholly to the consumers and so it  
22 would seem to me that the consumers would be affected by  
23 whatever was done in this way. Thank you very much,  
24 indeed.

25 MR. TOLMIE: Mr. Chairman, in respect to Mr.  
26 Grant's question, if it would be helpful to the Commission,  
27 we would be glad to secure counsel's opinion on this  
28 constitutional question and file it with the Commission.

29 I may say that I did take the opportunity, a  
30 month or so ago, to consult counsel on it generally. I



G10 1 did not secure written opinion. Now, if this would be of  
2 any help, we will be glad to secure a written opinion  
3 and file it with the Commission for their own study and  
4 analysis.

5 COMMISSIONER GRANT: The great obstacle that I  
6 have to overcome in my own mind, Mr. Tolmie, is the fact  
7 that the Crown is not obliged to pay taxes and that applies  
8 to the Crown in the right of the provinces, as well as  
9 the Crown in the right of the Federal Government, and that  
10 taxes can only be collected from an emanation of the Crown  
11 if there is specific authority granted in its incorporation  
12 that that particular offshoot shall be obliged or can pay  
13 taxes.

14 THE CHAIRMAN: Mr. Tolmie, I hesitate to suggest  
15 to you that you put your Association or your members to  
16 the expense of employing counsel. Certainly, constitutional  
17 aspects of this would be looked at by our own staff and  
18 its solution really turns largely on that, I think. Maybe  
19 it turns on many other things, too, but if this were  
20 answered in the negative, it would be no solution.

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Therefore, if you have something to submit to us which would indicate that this is a reasonable and feasible and sensible and practical thing to do it would certainly assist us in our deliberations. I am certainly not going to assure you that any such submission by counsel would be taken by us other than with a great deal of care and caution and examination, because we are compelled to do this ourselves. Certainly, we would want to look at it.

MR. TOLMIE: Thank you. We will discuss it.

THE CHAIRMAN: Good. Thank you very much.

THE SECRETARY: I have one more item.

THE CHAIRMAN: Yes, Mr. Secretary, proceed.

THE SECRETARY: There is a submission here presented by Mr. Bert Hargrave of Walsh, Alberta. This was received at the office in Ottawa on July 30th. Mr. Hargrave will not be here and I would like to enter it into the record as Exhibit I67.

--- EXHIBIT NO. 167: Submission of Mr. H.T. Hargrave.

THE CHAIRMAN: Thank you, Mr. Secretary. We will stand over until tomorrow morning at 9.30 in Regina.

--- Adjournment

















